SUPERLINER LEGISLATION

HEARINGS

BEFORE THE

COMMITTEE ON MERCHANT MARINE AND FISHERIES HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH CONGRESS

SECOND SESSION

ON

H. R. 9342

TO AUTHORIZE THE CONSTRUCTION AND SALE BY THE FEDERAL MARITIME BOARD OF A SUPERLINER PASSENGER VESSEL EQUIVALENT TO THE STEAMSHIP *UNITED STATES*, IDENTICAL AND SIMILAR BILLS

H. R. 9432

TO AUTHORIZE THE CONSTRUCTION AND SALE BY THE FEDERAL MARITIME BOARD OF A PASSENGER VESSEL FOR OPERATION IN THE PACIFIC OCEAN, AND IDENTICAL BILLS

FEBRUARY 4, 5, 6, 7, 10, 11, MARCH 12 AND 13, 1958

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SUPERLINER LEGISLATION

TUESDAY, FEBRUARY 4, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met, pursuant to call, at 10 a. m., in room 219, Old House Office Building, Hon. Herbert C. Bonner (chairman) presiding.

The CHAIRMAN. The committee will come to order.

We are commencing today on proposed legislation to authorize a sister ship to the steamship *United States* for transatlantic service and a new superliner passenger vessel for transpacific services.

The authorizing legislation was first introduced in the last session of Congress, and is considered to be necessary to supplement existing laws to make the construction of these vessels possible. Five bills have been introduced to authorize the sister ship to the steamship *United States*, and four to authorize the construction of the transpacific vessel.

In each category, the objective of the bills is the same, although there are some differences in the methods of achieving the objective.

At this point we will lay in the bills we have before us for consideration.

(The bills referred to and reports on them follow:)

[H. R. 9342, 85th Cong., 1st sess.]

A BILL To authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is necessary in order to carry out the merchant marine policy declared in the Merchant Marine Act, 1936, as amended, to have a superliner passenger vessel equivalent to the steamship United States, to replace the steamship America for operation on an essential trade route in the North Atlantic. There is hereby authorized to be appropriated to the Department of Commerce such sums as may be necessary, to remain available until expended, for the construction, outfitting, and equipping of such a superliner passenger vessel. In order that such construction may be accomplished promptly, the Federal Maritime Board, in its discretion, may have such a vessel constructed, without further bidding, under outstanding bids which have hitherto been made by United States shipbuilders on a similar vessel.

SEC. 2. Concurrently with entering into a contract with the shipbuilder for the construction of said vessel, the Board is authorized to enter into a contract for the sale of the vessel, fully outfitted and equipped, upon its completion to the United States Lines Company for the fixed price of $47,000,000. Terms and conditions of payment of the purchase price shall be as provided for in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended.

SEC. 3. Except as otherwise provided in this Act, the construction and sale of the superliner passenger vessel authorized by this Act shall be in accordance with the provisions of the Merchant Marine Act, 1936, as amended.

SEC. 4. For the purposes of this Act the words "construction differential subsidy" used in the Merchant Marine Act, 1936, as amended, shall mean the difference between the construction cost of the vessel (less national defense features) and the purchase price set forth herein.

[H. R. 9432, 85th Cong., 1st sess.]

A BILL To authorize the construction and sale by the Federal Maritime Board of a passenger vessel for operation in the Pacific Ocean

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is necessary in order to carry out the merchant marine policy declared in the Merchant Marine Act, 1936, as amended, to have a new passenger vessel with passenger capacity of approximately one thousand four hundred people for operation on an essential trade route in the Pacific Ocean. There is hereby authorized to be appropriated to the Department of Commerce such sums as may be necessary, to remain available until expended, for the construction, outfitting, and equipping of such a passenger vessel.

SEC. 2. Concurrently with entering into a contract with the shipbuilder for the construction of said vessel, the Board is authorized to enter into a contract for the sale of the vessel, fully outfitted and equipped, upon its completion to the American President lines, Limited, upon terms and conditions of payment of the purchase price as provided for in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended.

SEC. 3. Except as otherwise provided in this Act, the construction and sale of the passenger vessel authorized by this Act shall be in accordance with the provisions of the Merchant Marine Act, 1936, as amended.

[H. R. 9473, 85th Cong., 1st sess.]

A BILL To authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is necessary in order to carry out the merchant marine policy declared in the Merchant Marine Act, 1936, as amended, to have a superliner passenger vessel equivalent to the steamship United States, to replace the steamship America for operation on an essential trade route in the North Atlantic. There is hereby authorized to be appropriated to the Department of Commerce such sums as may be necessary, to remain available until expended, for the construction, outfitting, and equipping of such a superliner passenger vessel.

SEC. 2. Concurrently with entering into a contract with the shipbuilder for the construction of said vessel, the Board is authorized to enter into a contract for the sale of the vessel, fully outfitted and equipped, upon its completion to the United States Lines Company for the fixed price of $47,000,000. Terms and conditions of payment of the purchase price shall be as provided for in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended.

SEC. 3. Except as otherwise provided in this Act, the construction and sale of the superliner passenger vessel authorized by this Act shall be in accordance with the provisions of the Merchant Marine Act, 1936, as amended.

SEC. 4. For the purposes of this Act the words "construction differential subsidy" used in the Merchant Marine Act, 1936, as amended, shall mean the difference between the construction cost of the vessel (less national defense features) and the purchase price set forth herein.

[H. R. 9654, 85th Cong., 2d sess.]

A BILL To authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is necessary in order to carry out the merchant-marine policy declared in the Merchant Marine Act, 1936, as amended, to have a superliner passenger vessel equivalent in size, speed, and capacity to the steamship United States to replace the steamship America for operation

on an essential trade route in the North Atlantic. In order that such vessel be competitive during its useful life and to prevent premature obsolescence, it shall be equipped with nuclear propulsion. There is hereby authorized to be appropriated to the Department of Commerce such sums as may be necessary, to remain available until expended, for the construction, outfitting, and equipping of such a superliner passenger vessel.

SEC. 2. Concurrently with entering into a contract with the shipbuilder for the construction of said vessel, the Board is authorized to enter into a contract for the sale of the vessel, fully outfitted and equipped, upon its completion to the United States Lines Company for the fixed price of $47,000,000. Terms and conditions of payment of the purchase price shall be as provided for in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended.

SEC. 3. The Maritime Administration in carrying on activities and functions under this Act may employ persons, firms, and corporations on a contract or fee basis for the performance of special services deemed necessary by the Administration in carrying on such activities and functions, and may with the approval of the Secretary of Commerce avail itself of the use of licenses, information, services, facilities, offices, and employees of any executive department, independent establishment, or other agency of the Government, including any field service thereof, in carrying on such activities and functions.

SEC. 4. Except as otherwise provided in this Act, the construction and sale of the superliner passenger vessel authorized by this Act shall be in accordance with the provisions of the Merchant Marine Act, 1936, as amended.

SEC. 5. For the purposes of this Act the words "construction differential subsidy" used in the Merchant Marine Act, 1936, as amended, shall mean the difference between the construction cost of the vessel (less national defense features) and the purchase price set forth herein.

THE SECRETARY OF COMMERCE,
Washington, February 4, 1958.

HON. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: This letter is in reply to your request of August 22, 1957, for the views of this Department with respect to H. R. 9342, a bill to authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship *United States*.

The bill declares the necessity for the construction of a superliner passenger vessel equivalent to the steamship *United States* to replace the steamship *America*, which will be 20 years old by 1960, for operation on an essential trade route in the North Atlantic. It authorizes the appropriation to the Department of Commerce of the necessary sums for the construction of such a superliner passenger vessel and authorizes the Federal Maritime Board to enter into a contract for the sale of the vessel upon completion to the United States Lines Co., the present owner and operator of the steamship *United States* and the steamship *America*, for a specified price of $47 million, payment of the purchase price to be as provided in the 1936 act (25 percent down and payment of the balance within a 20-year period).

The Department of Commerce is in accord with the objective of the legislation and believes that construction of such a superliner passenger vessel with the contemplated characteristics and features would be desirable, but believes that the vessel should be constructed under the provisions of the Merchant Marine Act, 1936, as amended, and the administration budgetary policy which calls for private financing of the purchaser's portion of the cost, with Government aid as to that portion limited to Government insurance of the private loan and

mortgage under title XI of the 1936 act (which authorizes insurance of private loans and mortgages with principal amounts not exceeding 75 percent of the cost of the vessel to the purchaser).

The 1936 act provides for subsidizing the construction of vessels for operation on the essential foreign trade routes of the United States in an amount not exceeding 50 percent of the domestic construction cost of the vessel and provides for the full payment by the United States of the cost of national defense features incorporated in the vessel. The Department of Defense examines and passes upon the suitability of new vessels for use in national defense. The vessel would, of course, provide troop- and material-carrying capacity in event of war or national emergency.

It may be that the specified sales price of $47 million is less than the portion of the cost of the vessel which should be borne by the purchaser under the 1936 act. It would be unfortunate to set a precedent for a specified statutory determination in lieu of the administrative determination and computation of the construction-differential subsidy and the cost of national defense features in accord with the provisions of the 1936 act.

While the Department believes in the desirability of a prompt replacement of the steamship *America*, it is believed that the vessel should be provided in accord with the policy and provisions of the 1936 act, and that this will best serve the interests of the Government in furnishing the assistance contemplated under the contract of the United States Lines Co. to replace the steamship *America*.

The Department recommends authorization of the necessary appropriations to provide for the prompt replacement of the steamship *America* and recommends to this end that the bill be amended as follows:

Page 2, strike out all of lines 1 through 24 and insert in lieu thereof the following: "payment of construction-differential subsidy and cost of national defense features incident to the construction, outfitting, and equipping of such a superliner passenger vessel pursuant to section 504 of the Merchant Marine Act, 1936, as amended."

The Director, Bureau of the Budget, has advised that there would be no objection to the submission of this report. The Budget Bureau further advises that the Bureau believes that it would be desirable to build this ship at the appropriate time under the wholly adequate provisions of existing law which authorize payment of a construction subsidy and provide for private financing with Federal insurance of the ship mortgage. However, in this particular case, the Budget Bureau does not object to special legislation incorporating those features of the Merchant Marine Act, 1936, subject to the understanding that enactment of such legislation would not be construed as conferring a priority for appropriations for the ship without regard to other scheduled ship construction. Enactment of legislation requiring Federal financing of the ship mortgage as proposed by H. R. 9342 would not be in accord with the program of the President.

This letter applies to the bills H. R. 9351, H. R. 9473, and H. R. 9576, which are of the same, or similar, text as H. R. 9342.

Sincerely yours,

SINCLAIR WEEKS,
Secretary of Commerce.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, September 4, 1957.

B–130963.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives.

DEAR MR. CHAIRMAN: Further reference is made to your letter of August 20, 1957, acknowledged on August 21, requesting the comments of the General Accounting Office concerning H. R. 9342, 85th Congress, 1st session, entitled "A bill to authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship *United States*."

The proposed bill would authorize the Federal Maritime Board to accept, at its discretion, an outstanding bid from a United States shipbuilder for the construction of a vessel equivalent to the *United States* and to make a concurrent contract with the United States Lines Co. for the sale of the completed vessel, fully equipped and outfitted, for the fixed price of $47 million payable under the terms and conditions provided in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended. The difference between the construction cost of the vessel, excluding national-defense features, and $47 million, would be "construction-differential subsidy" for purposes of the Merchant Marine Act, 1936, as amended, the provisions of which would govern construction and sale of the vessel except as provided otherwise in the bill.

The presently outstanding low bid is that of New York Shipbuilding Corp. at $109,436,289, excluding a fin stabilization system. Certain items of outfit and equipment not included in the bid specifications are estimated to cost about $2 million, so that the February 1957 base month cost of the vessel would be about $111.5 million. Inclusion of a fin stabilization system would increase this amount by about $2.5 million. If escalation were to average 5 percent per year until delivery, and allowing something over 3 years for building, the total cost of the vessel without fins would be between $125 million and $130 million, exclusive of the costs of any changes and extras which might be found desirable. Under the terms of the proposed bill the cost of such changes and extras would be borne entirely by the Government, whereas under the 1936 act it would be shared between Government and owner in the construction-differential subsidy ratio for all items not classed as national-defense features.

It reasonably may be assumed that the "construction cost" mentioned in line 23, page 2, of the bill is intended to mean the total cost of the ship to the Government on delivery from the builder, including the cost of all items not included in the builder's bid but excluding that portion of such total cost as is determined tor epresent national-defense features. However, it is suggested that the Congress may desire to consider the advisability of clarifying this feature of the bill.

We have no knowledge as to the basis on which the fixed price of $47 million was determined. However, such price in effect replaces (1) "the fair and reasonable estimate of cost * * * in a foreign shipbuilding center * * * and (2) would exceed the 50 percent limitation of section 502 (b) and, to this extent, would deviate from the authorization presently provided in the Merchant Marine Act of 1936, as amended."

The bill makes no provision for adjustments in the purchase price in the event the owner finds it desirable at some future time to operate the vessel in commercial service at speeds higher than those established at the time of purchase which are the basis on which the cost of the speed component of national features is computed. Such adjustments, to reflect the commercial value of the use of extra speed and other national-defense features, have been provided for in recent contracts for the acquisition of vessels with Government participation.

The proposed legislation would also preclude private financing of the unpaid balance of the owner's cost, replacing it with the provisions of section 502 (c) and 503 which provide for Government financing through preferred mortgages payable in 20 years with interest at 3½ percent per annum. The effect of this would be to require appropriation for the total cost of the vessel less the owner's downpayment of 25 percent; whereas under private financing, appropriation would be necessary only for the sum representing construction-differential subsidy and national-defense features. Assuming a downpayment by the United States Lines Co. of about $12 million (25 percent of $47 million), the increased appropriation would amount to approximately $35 million. In pursuance of the policy followed by Maritime Administration in the past several years, recent agreements for the construction and purchase of vessels have provided for private financing with the mortgage held by the financing institution being insured by the Government under title XI of the Merchant Marine Act, 1936, as amended. We understand that the interest rates on these mortgages are considerably higher than the 3½ percent charged under the Government preferred mortgages.

We recognize that the proposed bill is the result of special circumstances—the background of which indicates that the cost of replacing the steamship *America* under existing provisions of the Merchant Marine Act of 1936, as amended, with a vessel equivalent to the steamship *United States* is not commercially feasible. On the other hand, its enactment may nevertheless serve as a precedent for similar proposals for the construction of vessels and their sales at fixed prices in lieu of estimated foreign costs, or for other deviations from basic provisions of the act, based on contentions of equally justifiable special circumstances. We also recognize that the question of whether special legislation of this type, granting Government aid in excess of that presently authorized, is necessary to the national interest is strictly a matter of policy for determination by the Congress, on which we express no opinion. We would suggest, however, that the matters hereinabove set forth be given serious consideration by your committee in its deliberations on the bill.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, September 5, 1957.

B–130963.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives.

DEAR MR. CHAIRMAN: Further reference is made to your letter of August 28, 1957, acknowledged on August 29, requesting the comments of the General Accounting Office concerning H. R. 9473, 85th Congress, 1st session, entitled "A bill to authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship *United States*."

This bill is similar to H. R. 9342, 85th Congress, 1st session, which was the subject of our comments to your committee in a letter dated September 4, 1957, a copy of which is enclosed. The difference, however, between the two bills is that H. R. 9342 authorizes the Federal Maritime Board to accept, at its discretion, an outstanding bid from a United States shipbuilder, while the present bill, H. R. 9473, merely authorizes the entering into a contract with the shipbuilder for the construction of such vessel. In the event, therefore, that the latter bill contemplates a readvertisement and solicitation of new bids, it is suggested that this phase of the matter be clarified.

Like H. R. 9342, the present bill would authorize the Federal Maritime Board to make a concurrent contract with the United States Lines Co. for the sale of the completed vessel, fully equipped and outfitted, for the fixed price of $47 million payable under the terms and conditions provided in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended. The difference between the construction cost of the vessel, excluding national defense features, and $47 million, would be "construction differential subsidy" for purposes of the Merchant Marine Act, 1936, as amended, the provisions of which would govern construction and sale of the vesesl except as provided otherwise in the bill.

It reasonably may be assumed that the "construction cost" mentioned in line 18, page 2, of the bill is intended to mean the total cost of the ship to the Government on delivery from the builder, including the cost of all items not included in the builder's bid but excluding that portion of such total cost as determined to represent national defense features. However, it is suggested that the Congress may desire to consider the advisability of clarifying this feature of the bill.

We have no knowledge as to the basis on which the fixed price of $47 million was determined. However, such price in effect replaces (1) "the fair and reasonable estimate of cost * * * in a foreign shipbuilding center * * *" and (2) would exceed the 50 percent limitation of section 502 (b) and, to this extent, would deviate from the authorization presently provided in the Merchant Marine Act of 1936, as amended.

The bill makes no provision for adjustments in the purchase price in the event the owner finds it desirable at some future time to operate the vessel in commercial service at speeds higher than those established

at the time of purchase which are the basis on which the cost of the speed component of national defense features is computed. Such adjustments, to reflect the commercial value of the use of extra speed and other national defense features, have been provided for in recent contracts for the acquisition of vessels with Government participation.

The proposed legislation would also preclude private financing of the unpaid balance of the owner's cost, replacing it with the provisions of section 502 (c) and 503 which provide for Government financing through preferred mortgages payable in 20 years with interest at 3½ percent per annum. The effect of this would be to require appropriation for the total cost of the vessel less the owner's downpayment of 25 percent; whereas under private financing, appropriation would be necessary only for the sum representing construction differential subsidy and national defense features. Assuming a downpayment by the United States Lines Co. of about $12 million (25 percent of $47 million), the increased appropriation would amount to approximately $35 million. In pursuance of the policy followed by Maritime Administration in the past several years, recent agreements for the construction and purchase of vessels have provided for private financing with the mortgage held by the financing institution being insured by the Government under Title XI of the Merchant Marine Act, 1936, as amended. We understand that the interest rates on these mortgages are considerably higher than the 3½ percent charged under the Government preferred mortgages.

We recognize that the proposed bill is the result of special circumstances—the background of which indicates that the cost of replacing the steamship *America* under existing provisions of the Merchant Marine Act of 1936, as amended, with a vessel equivalent to the steamship *United States* is not commercially feasible. On the other hand, its enactment may nevertheless serve as a precedent for similar proposals for the construction of vessels and their sales at fixed prices in lieu of estimated foreign cost, or for other deviations from basic provisions of the act, based on contentions of equally justifiable special circumstances. We also recognize that the question of whether special legislation of this type, granting Government aid in excess of that presently authorized, is necessary to the national interest is strictly a matter of policy for determination by the Congress, on which we express no opinion. We would suggest, however, that the matters hereinabove set forth be given serious consideration by your committee in its deliberations on the bill.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
OFFICE OF LEGISLATION,
Washington, D. C., February 3, 1958.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D. C.

MY DEAR MR. BONNER: Your requests for comment on H. R. 9342 and H. R. 9473, similar bills to authorize the construction and sale

by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship *United States* have been referred to this Department by the Secretary of Defense for the preparation of a report expressing the views of the Department of Defense.

The purpose of the bills is to authorize the Federal Maritime Board to contract for the construction of a superliner passenger vessel equivalent to the steamship *United States*, to replace the steamship *America* for operation in the North Atlantic. The Board would be authorized to contract for the sale of said vessel, upon its completion, to the United States Lines for the fixed price of $47 million.

Construction of this new ship would represent an important step forward in the current program for replacement of obsolescent passenger vessels. The proposed vessel would be suitable for speedy and economical conversion into a naval or military auxiliary, and would provide additional troop carrying capacity required in event of war or national emergency.

The financial arrangements of the construction are under the jurisdiction of the Federal Maritime Board and the Department of Commerce. The Department of the Navy, on behalf of the Department of Defense, defers to those agencies with respect to financial aspects of the bill.

The Department of Defense favors the construction of a sister ship to the steamship *United States* as a replacement to the steamship *America*. Subject to the views of the Department of Commerce with respect to the financial aspects of the bills, the Department of the Navy, on behalf of the Department of Defense, favors the enactment of H. R. 9342 and H. R. 9473.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Department of the Navy has been advised by the Bureau of the Budget that while there is no objection to the submission of this report to the Congress, the Bureau of the Budget believes that it would be desirable to build this ship at the appropriate time under the wholly adequate provisions of existing law which authorize payment of a construction subsidy and provide for private financing, with Federal insurance, of the ship mortgage. However, in this particular case, the Bureau of the Budget does not object to special legislation incorporating these features of the Merchant Marine Act, subject to the understanding that enactment of such legislation would not be construed as conferring a priority for appropriations for the ship without regard to other scheduled ship construction. The Bureau of the Budget has further advised that enactment of legislation requiring Federal financing of the ship mortgage, as proposed by H. R. 9342, would not be in accord with the program of the President.

Sincerely yours,

E. C. STEPHAN,
Rear Admiral, United States Navy,
Chief of Legislative Liaison
(For the Secretary of the Navy).

THE SECRETARY OF COMMERCE,
Washington 25, February 4, 1958.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: This letter is in reply to your request of January 13, 1958, for the views of this Department with respect to H. R. 9654, a bill to authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship *United States*.

The bill declares the necessity for the construction of a superliner passenger vessel equivalent to the steamship *United States*, but with nuclear propulsion, to replace the steamship *America*, which will be 20 years old by 1960, for operation on an essential trade route in the North Atlantic. It authorizes the appropriation to the Department of Commerce of the necessary sums for the construction of such a superliner passenger vessel and authorizes the Federal Maritime Board to enter into a contract for the sale of the vessel upon completion to the United States Lines Co., the present owner and operator of the steamship *United States* and the steamship *America*, for a specified price of $47 million, payment of the purchase price to be as provided in the 1936 act (25 percent down and payment of the balance within a 20-year period).

The Department of Commerce is in accord with the objective of the legislation and believes that construction of such a superliner passenger vessel with the contemplated characteristics and features would be desirable, but believes that the vessel should be constructed under the provisions of the Merchant Marine Act, 1936, as amended, and the administration budgetary policy which calls for private financing of the purchaser's portion of the cost, with Government aid as to that portion limited to Government insurance of the private loan and mortgage under title XI of the 1936 act (which authorizes insurance of private loans and mortgages with principal amounts not exceeding 75 percent of the cost of the vessel to the purchaser).

The 1936 act provides for subsidizing the construction of vessels for operation on the essential foreign trade routes of the United States in an amount not exceeding 50 percent of the domestic construction cost of the vessel and provides for the full payment by the United States of the cost of national-defense features incorporated in the vessel. The Department of Defense examines and passes upon the suitability of new vessels for use in national defense. The vessel would, of course, provide troop and material carrying capacity in event of war or national emergency.

It may be that the specified sales price of $47 million is less than the portion of the cost of the vessel which should be borne by the purchaser under the 1936 act. It would be unfortunate to set a precedent for a specified statutory determination in lieu of the administrative determination and computation of the construction-differential subsidy and the cost of national-defense features in accord with the provisions of the 1936 act.

The bill specifically provides that the new vessel shall be equipped with nuclear propulsion. The purpose, the bill states, is to make the vessel competitive during its useful life and to prevent premature obsolescence. In view of the construction of the nuclear-powered

nuclearship *Savannah* to be ready in 1960, the economic noncompetitiveness of present nuclear-propulsion plants as compared with conventional powerplants, and the likelihood that nuclear research and experiment would make a currently constructed powerplant obsolete before the end of the useful life of the new ship, the Department recommends against the use of nuclear propulsion in this vessel.

While the Department believes in the desirability of a prompt replacement of the steamship *America*, it is believed that the vessel should be provided in accord with the policy and provisions of the 1936 act, and that this will best serve the interests of the Government in furnishing the assistance contemplated under the contract of the United States Lines Co. to replace the steamship *America*.

The Department recommends authorization of the necessary appropriations to provide for the prompt replacement of the steamship *America* and recommends that, if the committee adopts this bill, it be amended as follows:

Page 1, lines 8 to 10, strike out the last sentence.

Page 2, strike out all of lines 3 through 24 and insert in lieu thereof the following:

available until expended, for the payment of construction-differential subsidy and cost of national-defense features incident to the construction, outfitting, and equipping of such a superliner passenger vessel pursuant to section 504 of the Merchant Marine Act, 1936, as amended.

Page 3, strike out lines 1 to 7.

The Director, Bureau of the Budget, has advised that there would be no objection to the submission of this report. The Budget Bureau further advises that the Bureau believes that it would be desirable to build this ship at the appropriate time under the wholly adequate provisions of existing law which authorize payment of a construction subsidy and provide for private financing with Federal insurance of the ship mortgage. However, in this particular case, as in the case of H. R. 9342, the Budget Bureau does not object to special legislation incorporating these features of the Merchant Marine Act, 1936, subject to the understanding that enactment of such legislation would not be construed as conferring a priority for appropriations for the ship without regard to other scheduled ship construction. Enactment of legislation requiring Federal financing of the ship mortgage as proposed by H. R. 9654 would not be in accord with the program of the President.

Sincerely yours,

SINCLAIR WEEKS,
Secretary of Commerce.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, January 31, 1958.

B–130963.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives.

DEAR MR. CHAIRMAN: Further reference is made to your letter of January 13, 1958, acknowledged on January 14, requesting the comments of the General Accounting Office concerning H. R. 9654, 85th Congress, 2d session, entitled "A bill to authorize the construction

and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship *United States*."

This bill is similar to H. R. 9342 and H. R. 9473, 85th Congress, 1st session, which were subjects of our comments to your committee in letters dated September 4 and 5, 1957, respectively, copies of which are enclosed.

As in H. R. 9342 and H. R. 9473, the present bill would authorize the Federal Maritime Board to contract for the sale of a superliner, fully outfitted and equipped, upon its completion to the United States Lines Co. for the fixed price of $47 million, payable under the terms and conditions provided in sections 502 (c) and 503, Merchant Marine Act, 1936, as amended, concurrently with entering into a construction contract with the shipbuilder. The difference between the construction cost of the vessel, excluding national defense features, and $47 million would be construction-differential subsidy for the purpose of the 1936 act, the provisions of which would govern the construction and sale of the superliner except as otherwise provided in the bill.

Unlike both previous bills, H. R. 9654 provides that the vessel shall be equipped with nuclear propulsion. Although nuclear-powered merchant ships may be technically feasible, it is not ascertainable by us whether the first ships will be economically competitive with conventionally powered vessels. It is understood that the Atomic Energy Commission and the Maritime Administration are jointly engaged in a program to develop nuclear propulsion for commercial shipping and to construct the first nuclear-powered merchant ship, the nuclearship *Savannah;* however, it also is our understanding that the program still appears to be in the research and development stage, and no doubt the Atomic Energy Commission and the Maritime Administration will be in a position to advise your committee in detail the results of its studies.

We understand that the United States Lines Co. has determined that it cannot pay more than $47 million based on projections of revenues, operating costs, and operating differential subsidy for a conventionally powered superliner similar to the steamship *United States*, but in the instant case we are not in a position to ascertain what effect nuclear propulsion would have upon operating results.

Unlike both previous bills, H. R. 9654 also provides that the Maritime Administration may engage specialists and avail itself, with the approval of the Secretary of Commerce, of benefits which may be derived from other Government agencies in carrying on the activities and functions under the proposed act. Since the appropriation authorization under section 1 of the bill is limited to the construction, outfitting, and equipping of such vessel, it may be desirable to indicate whether the cost of these services and benefits are intended to be included in such authorization or are to be financed from other funds.

Again, unlike H. R. 9342, the present bill does not expressly authorize the Federal Maritime Board to have such a vessel constructed without further bidding, under outstanding bids which have previously been made by United States shipbuilders on a similar vessel. The New York Shipbuilding Corp. made the low bid of $109,436,289 in March 1957 for a conventionally powered vessel, exclusive of a fin-stabilization system and certain items of outfit and equipment. But we have no information on the estimated total cost of such a ship to the Government upon completion at the present time, nor on the probable additional cost for nuclear propulsion.

We assume that the words "construction cost" on line 6, page 3, of the bill is intended to mean the total cost of the ship to the Government on delivery from the builder, including the cost of all items not included in the builder's bid but excluding that portion of such total cost as is determined to represent national defense features.

The fixed price in effect replaces (1) "the fair and reasonable estimate of cost * * * in a foreign shipbuilding center * * *" required by section 502 (b), Merchant Marine Act, 1936, as amended. In our letter of September 4, 1957, to your committee, reporting on H. R. 9342, we estimated an ultimate cost of between $125 million and $130 million, exclusive of charges and extras for the conventionally powered type of superliner on which the New York Shipbuilding Corp. was the low bidder. However, the cost probably will be higher by the inclusion of nuclear propulsion. In any event, it seems implicit in the proposed fixed sales price of $47 million that the amount of construction differential subsidy would exceed the 50 percent limitation of section 502 (b) of the act.

The proposed legislation also would preclude private financing of the unpaid balance of the owner's cost, replacing it with the provisions of sections 502 (c) and 503 which provide for Government financing through preferred mortgages payable in 20 years with interest at 3½ percent per annum. The effect of this would be to require appropriation for the total cost of the vessel less the owner's downpayment of 25 percent; whereas, under private financing, appropriation would be necessary only for the sum representing construction differential subsidy and national defense features. Assuming a downpayment by the United States Lines Co. of about $12 million (25 percent of $47 million), the increased appropriation would amount to approximately $35 million. In pursuance of the policy followed by Maritime Administration in the past several years, recent agreements for the construction and purchase of vessels have provided for private financing with the mortgage held by the financing institution being insured by the Government under title XI of the Merchant Marine Act, 1936, as amended. We understand that the interest rates on these mortgages are considerably higher than the 3½ percent charged under the Government preferred mortgages.

We recognize that the proposed bill is the result of special circumstances—the background of which indicates that the cost of replacing the Steamship *America* under existing provisions of the Merchant Marine Act of 1936, as amended, with a vessel equivalent to the Steamship *United States* is not commercially feasible. On the other hand, its enactment may nevertheless serve as a precedent for similar proposals for the construction of vessels and their sales at fixed prices in lieu of estimated foreign cost, or for other deviations from basic provisions of the act, based on contentions of equally justifiable special circumstances. We also recognize that the question of whether special legislation of this type, granting Government aid in excess of that presently authorized, is necessary to the national interest is strictly a matter of policy for determination by the Congress, on which we express no opinion. We would suggest, however, that the matters hereinabove set forth be given serious consideration by your committee in its deliberations on the bill.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

21620—58——2

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
OFFICE OF LEGISLATIVE LIAISON,
Washington 25, D. C., February 4, 1958.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: Your request for comment on H. R. 9654, a bill to authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship *United States*, has been referred to this Department by the Secretary of Defense for the preparation of a report thereon expressing the views of the Department of Defense.

The purpose of this bill is to authorize the Federal Maritime Board to contract for the construction of a superliner passenger vessel equivalent to the steamship *United States*, to replace the steamship *America* for operation in the North Atlantic. The Board would be authorized to contract for the sale of said vessel, upon its completion, to the United States Lines for the fixed price of $47 million. It is further specified in this bill that this superliner passenger vessel be equipped with nuclear propulsion in order to render it competitive during its useful life and to prevent premature obsolescence.

Construction of a new superliner passenger vessel equivalent to the steamship *United States* would represent an important step forward in the current program for replacement of obsolescent passenger vessels. Such a vessel would be suitable for speedy and economical conversion into a naval or military auxiliary, and would provide additional troop carrying capacity required in event of war or national emergency. However, ships of this type, with conventional propulsion, are not expected to experience fuel shortages in their planned mobilization use. The much larger cruising radius, characteristic of nuclear propulsion, would therefore be of little mobilization value in the proposed ship. Further, the specialized skills and facilities required for construction of a nuclear powered ship of this size would seriously impair existing programs of higher priority to equip ships with nuclear power.

The statement in the bill that the equipping of this vessel with nuclear power would render it competitive during its useful life and would prevent premature obsolescence is inaccurate and misleading. The cost of installation and operation of shipboard nuclear powerplants is not currently competitive with the cost of powerplants using conventional fuel and is not expected to be competitive for a number of years. By the time nuclear reactor plants can be constructed to provide power at a cost comparable to those of conventionally powered plants, the reactor powerplant proposed for installation in this vessel would be obsolescent. It is considered, therefore, that at no time during its useful life would a nuclear powerplant in this proposed new ship be competitive.

Section 3 of the subject bill provides that the Maritime Administration may avail itself of the use of licenses, information, services, facilities, offices, and employees of any other agency of the Government. It is recommended that this provision be amended to require the prior approval of the agency or agencies from which assistance would be sought.

For the foregoing reasons the Department of the Navy, on behalf of the Department of Defense, opposes the enactment of H. R. 9654 but would strongly support the construction of an identical ship with conventional propulsion.

This report has been coordinated with the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Department of the Navy has been advised by the Bureau of the Budget that there is no objection to the submission of this report on H. R. 9654 to the Congress. The Bureau of the Budget has further advised that enactment of legislation requiring Federal financing of the ship mortgage, as proposed by H. R. 9654, would not be in accord with the program of the President.

Sincerely yours,

E. C. STEPHAN,
Rear Admiral, United States Navy,
Chief of Legislative Liaison
(For the Secretary of the Navy).

ATOMIC ENERGY COMMISSION,
Washington 25, D. C., February 4, 1958.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives.

DEAR MR. BONNER: I refer to your letter of January 13 which requested the views of the Atomic Energy Commission with respect to H. R. 9654, a bill to authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel equivalent to the steamship *United States*.

The Atomic Energy Commission in cooperation with the Maritime Administration has undertaken what we believe to be a balanced program leading toward the eventual development of nuclear powerplants capable of providing economic propulsive power for merchant vessels. The Atomic Energy Commission considers the construction of the nuclear ship *Savannah* a major step in achieving this objective. Likewise, we are mutually engaged in studies of additional merchant nuclear vessels with high hope that improvements can be made, in terms of cost and weight, over the existing pressurized-water plant in the nuclear ship *Savannah*.

A superliner would require a powerplant well in excess of 700 thermal megawatts of power, thereby necessitating the use of several reactors in parallel to provide operating power. This plant would be very expensive and might require that as many as four reactors of identical design be built before an operating prototype had been built and tested.

In a balanced development program, it is necessary that additional ships be built in order to gain early practical constructing and operating experience. It is, however, imperative that this transition to nuclear power be taken in logical steps such that we work with relatively small prototype plants before attempting to extrapolate this information to such a very large vessel as a superliner. Accordingly, while the Commission believes that a vessel such as the superliner

passenger vessel proposed in H. R. 9654 could, at some time in the future, fruitfully use nuclear power, it is our belief that a vessel of this complexity could not at the present time "be competitive during its useful life."

The Bureau of the Budget has advised us that it has no objection to the submission of this report.

Sincerely yours,

(Signed) R. W. Cook,
Deputy General Manager.

Department of the Navy,
Office of the Secretary,
Office of Legislative Liaison,
Washington 25, D. C., February 3, 1958.

Hon. Herbert C. Bonner,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington 25, D. C.

My Dear Mr. Chairman: Your request for comment on H. R. 9432, a bill to authorize the construction and sale by the Federal Maritime Board of a passenger vessel for operation in the Pacific Ocean has been assigned to this Department by the Secretary of Defense for the preparation of a report thereon expressing the views of the Department of Defense.

This bill would authorize the Federal Maritime Board to contract for the construction of a passenger vessel with capacity of approximately 1,400 persons for operation in the Pacific Ocean. Concurrently, the Board would be authorized to contract for the sale of said vessel, upon its completion, to the American President Lines, Ltd.

Construction of this new ship would represent an important step forward in the current program for replacement of obsolescent passenger vessels. The proposed vessel would provide additional troop-carrying capacity required in the event of war or national emergency.

The Department of the Navy, on behalf of the Department of Defense, favors the construction of such a vessel and accordingly, favors the enactment of H. R. 9432, however, it should be noted that it appears that the Merchant Marine Act, 1936, as amended, already provides the Federal Maritime Board with adequate authority to carry out the purposes of H. R. 9432.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Department of the Navy has been advised by the Bureau of the Budget that while there is no objection to the submission of this report, the Bureau of the Budget recommends that H. R. 9432 not be enacted because it is both unnecessary in order to accomplish its purpose and in some of its provisions undesirable. The appropriation for merchant marine ship construction requested in the President's budget for 1959 includes funds for the passenger vessel in the Pacific contemplated by this bill. It is planned that the ship will be constructed under the wholly adequate provisions of existing law which authori e the payment of a construction subsidy and provide for private financing, with Federal insurance, of the ship mortgage. The

Bureau of the Budget advises further that enactment of legislation requiring Federal financing of the ship mortgage, as proposed by H. R. 9432, would not be in accord with the program of the President.

Sincerely yours,

E. C. STEPHAN,
Rear Admiral, United States Navy,
Chief of Legislative Liaison
(For the Secretary of the Navy).

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, September 5, 1957.

B–133594.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives.

DEAR MR. CHAIRMAN: Further reference is made to your letter of August 26, 1957, acknowledged on August 27, requesting the comments of the General Accounting Office concerning H. R. 9432, 85th Congress, 1st session, entitled "A bill to authorize the construction and sale by the Federal Maritime Board of a passenger vessel for operation in the Pacific Ocean."

The bill recites that it is necessary to have a new passenger vessel of approximately 1,400-passenger capacity for operation on an essential trade route in the Pacific Ocean in order to carry out the merchant marine policy declared in the Merchant Marine Act, 1936, as amended. It authorizes the appropriation of such sums as may be necessary therefor and the sale thereof to the American President Lines, Ltd., upon terms and conditions of payment of the purchase price as provided for in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended. All other aspects of the transaction would be governed by the Merchant Marine Act, 1936, as amended. The bill, however, would preclude the use of private financing for the unpaid balance of the purchase price, whereas it has been the policy of the Federal Maritime Board in recent construction-differential subsidy transactions to require such private financing and to extend thereto the provisions of title XI of the act if requested. Appropriations for the cost of construction under the proposed bill would, therefore, be greater by the amount of such unpaid balance than if private financing were used. However, we understand that interest and other financing costs payable by the purchaser for private financing are higher than the 3½ percent charged under Government financing.

It is not clear whether it is intended to restrict the proposed vessel to the Pacific Ocean at all times and we accordingly suggest clarification of this point.

Aside from the above, we have no information as to the necessity or desirability of the proposed legislation.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

The CHAIRMAN. In this connection, the staff has prepared a memorandum to all members of the committee, setting forth the background of the legislation, outlining the considerations involved, and setting for the list of witnesses in order of appearance, and indicating the expected scope of the testimony.

This memorandum, dated January 31, was delivered to the members over the weekend. An additional copy is on each member's desk. I believe it is self-explanatory. Since the purpose of these hearings is fully set forth in the staff memorandum, there is no need to repeat it now.

Before proceeding with the witnesses, I want to make a statement to representatives of the Government departments who are here. I would like the Government departments who are not here present to get this message. This legislation was introduced in August of last year; the bills were promptly sent to the agencies concerned.

During the recess, between the last session of Congress and the beginning of this session of Congress, I instructed the committee staff to, by correspondence and telephone, request that written reports be expedited and sent to the committee before this session convened. Since the first of the year, our efforts to secure these departmental reports were increased. The fact that these hearings were going to be held early in this session was well known to all of the Government departments from the outset. The importance of the legislation was repeatedly emphasized. Yet, until late yesterday, not a single report from the executive branch had been delivered to the committee. I want to make it perfectly clear that I feel such discourtesy is inexcusable, and it is beyond me to understand how the departments of the Government that have the responsibility to make reports to the committees of Congress can carry on in such a manner.

The first witness this morning is Maj. Gen. John M. Franklin, president, United States Lines Co.

Mr. RIVERS. Before you begin, may I ask a question of the Chair?

When you say the Government agencies have not responded to your inquiry, does that include the Maritime Commission?

The CHAIRMAN. That includes all Government agencies, Mr. Rivers.

Mr. RIVERS. I asked if it includes the Maritime Commission.

The CHAIRMAN. That includes all departments of the Government to which this legislation was directed, and have the responsibility of making reports—the Maritime Administration, as you say, the Department of Commerce, the Bureau of the Budget.

General Franklin, will you give your full name and your background.

STATEMENT OF MAJ. GEN. JOHN M. FRANKLIN, PRESIDENT, ACCOMPANIED BY RAYMOND HICKS, EXECUTIVE VICE PRESIDENT, AND C. D. GIBBONS, VICE PRESIDENT AND TREASURER, UNITED STATES LINES CO.

General FRANKLIN. John M. Franklin, president, United States Lines Co.

The CHAIRMAN. Do you have a statement to make, General Franklin?

General FRANKLIN. Yes, sir; I have a brief statement.

Before I start, Mr. Chairman, Colonel Hicks, the executive vice president of the United States Lines, and Mr. Gibbons, vice president and treasurer of the United States Lines, are here and they have some exhibits or documents that might be well to put into the record, and also particularly on financial matters they will probably answer certain questions better than I.

The CHAIRMAN. Do you care to call your associates up with you?

General FRANKLIN. Yes, sir.

The CHAIRMAN. Have them come right up with you.

General FRANKLIN. Mr. Chairman, it is a privilege for me to have the opportunity of appearing before your committee. We have prepared a short statement which, if you approve, I will be pleased to read.

There is before your committee a bill, H. R. 9342, which bill authorizes the construction and sale by the Federal Maritime Board to the United States Lines Co. of a passenger vessel equivalent to the steamship *United States* to replace the steamship *America*.

This bill provides that the sale price to the United States Lines Co. of the new ship shall be $47 million; that the terms and conditions of payment of the purchase price shall be as provided in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended. In brief, the two sections just referred to provide that a ship owner shall make a cash payment of not less than 25 percent of the purchase price, with the balance payable over 20 years in equal annual installments, with interest at the rate of 3½ percent per annum.

The bill also provides that, except as provided therein, the construction and sale of the new vessel shall be in accordance with the provisions of the Merchant Marine Act, 1936, amended.

Please allow me to trace briefly the developments which resulted in the introduction of this bill. Negotiations between the Maritime Administration and the United States Lines commenced early in 1956 regarding the type of vessel to be built to replace the steamship *America*, which ship will be 20 years of age in 1960.

In this connection, it is important to bear in mind that the subsidy agreement between the Federal Maritime Board and the United States Lines with respect to the steamship *America* is as follows:

> The subsidy agreement shall terminate with respect to the steamship *America* on August 1, 1958, but may be extended with respect to the steamship *America* by mutual consent on such terms and conditions as the parties may agree; provided that, prior to the grant of such extension, the operator shall make formal commitment satisfactory to the Board for the replacement of the steamship *America* with new construction.

We cannot, of course, operate the steamship *America* without an operating differential subsidy.

It was agreed between the Federal Maritime Board and the United States Lines that the best replacement for the steamship *America* would be a sister ship to the steamship *United States* and that no important improvements in hull lines or machinery could be made at this time.

I believe, sir, the last time I had the privilege of appearing before this committee Admiral Mumma of the Navy testified to that same effect.

Accordingly, invitations were sent out to the shipyards requesting bids on a ship similar to the steamship *United States* with minor improvements.

As a result, bids were opened on March 21, 1957. The lowest bidder was the New York Shipbuilding Co. with a bid of $109 million. Based on a bid of $109 million, and adding escalation and other expenses which we know were experienced with the steamship *United States*, the total cost of the new ship will be in the neighborhood of $128 million.

The steamship *United States* cost United States Lines Co. approximately $35 million, that is, that was the cost to the company. Therefore, if we could purchase the new ship for approximately $47 million and get a credit of $10 million or more for the steamship *America* or sell her free of all restrictions to a citizen of a NATO country for the same amount, it would result in a net out-of-pocket cost to the United States Lines Co. of approximately the cost of the steamship *United States*.

The financial results of the steamship *United States* over a 5½-year period of operation, from July 1952 to December 1957, show an average profit of $1,314,000 per annum, which is 3.76 percent of the cost of the vessel to the United States Lines.

I consider that a very small return. We have also calculated what the result of a new ship would have been at a cost of $47 million with interest at 3½ percent on the balance of the mortgage during this period, based on the revenue and operating expenses of the steamship *United States*. The result shows that the new vessel would have earned an average profit of $832,000 per annum or 1.77 percent of the cost to the United States Lines, and that if both vessels had been operating during this 5½-year period, the result would have been an average profit each year of $2,146,000 or 2.62 percent of the cost of the 2 vessels.

In other words, operating at near capacity during a period of prosperity such as we have had over the last 5 years, the 2 ships would not have approached the 10-percent return on invested capital allowed by the 1936 act.

It is, therefore, the position of United States Lines Co. that it cannot pay more than approximately $47 million for the vessel and come out with a result that any prudent businessman would consider satisfactory.

We have several times advised the Maritime Administrator that we felt that we could not go beyond our original statement that we would recommend to our board of directors to pay up to $47 million for a new ship provided we could dispose of the steamship *America* either by sale free of all restrictions to a citizen of a NATO country or trade-in for $10 million or more, and borrow the 75 percent on a mortgage with interest at 3½ percent. This is still our position.

Consideration must also be given to the fact that the steamship *United States* has been operated in a period of great prosperity in this country and, while we all hope that such prosperity will continue over the next 20 years and more, we must give consideration to the possibility of a dropoff in foreign travel in some part of that period.

While there is no legal obligation to do so, United States Lines Co. would like to have a sister ship to the steamship *United States* to replace the steamship *America*, but there is a point beyond which we cannot go in the matter of the purchase price of the new ship.

It is obvious that if we are to have a well-balanced service in the North Atlantic, there should be a replacement for the *America* after

1960. As a replacement cannot be constructed and placed in service by August 1, 1958, when the *America*'s operating subsidy, unless extended by the Federal Maritime Board, comes to an end under our present agreement, arrangements for the continuation of the *America*'s subsidy should be made before that date. Otherwise, when August 1, 1958, arrives, unless the date is extended by the Federal Maritime Board, the steamship *America* will have to be sold or laid up, for, as I have said, we cannot afford to operate her without an operating differential subsidy.

The value of a sister ship to the *United States*, insofar as national defense is concerned, was brought out forcefully by the testimony of Rear Admiral Mumma, United States Navy, and Captain Outerbridge of the Chief of Naval Operations office, before this committee at a hearing held on July 11, 1956.

The advent into service in July 1952, of the steamship *United States* and the fact that she broke the transatlantic speed record both east and west focused the attention of the entire world on the American merchant marine.

Since her first voyage, the ship has carried 382,552 passengers, and has not been tied up one single day by labor trouble.

As you gentlemen know, they sometimes have what they call quickie strikes and ships are tied up. We better knock on wood. The steamship *United States* hasn't been tied up a day.

I want to give credit to the union and particularly Mr. Curran, president of the NMU, who realizes as well as we do the importance of keeping that big ship on schedule. The cost of tying up the steamship *United States* for one day would be $50,000 a day when she is tied up at the dock.

Due to a great degree to the efficiency of her crew, the ship has helped materially to dispel the erroneous impression that service on American passenger ships is not as good as on foreign-flag ships.

I think the ship has done a great deal. I think the *America* also helped to dispel that erroneous idea.

The ship has added to the prestige of the United States in the eyes of the world. She has not only made friends for herself but has improved the standing of the entire American merchant marine.

A sister ship to the steamship *United States* would considerably enhance this prestige.

Consequently, the problem before us is, Does the Government want and need a sister ship to the *United States*, to be ready in case of emergency, with United States Lines Co. contributing $47 million toward its construction cost and maintaining such a ship in readiness for a national emergency at all times?

That concludes my statement, Mr. Chairman.

The CHAIRMAN. General, prior to the advertising of the bids for the replacement of the *America*, you did collaborate with the Maritime Administration under the provisions of the 1936 act?

General FRANKLIN. Yes, sir.

The CHAIRMAN. At that time did the officials of your company state to the Maritime Administration that they could not build a ship under the provisions of the 1936 act?

General FRANKLIN. No, sir. We told the Federal Maritime Administration—and they have all the figures as to the earnings of the steamship *United States*. And we would be delighted, Mr. Chair-

man, if you wish, to supply a copy for the record of these figures—that we could not pay more than $47 million for a new sister ship to steamship *United States*, and then could only pay that sum if we were allowed to sell the *America* foreign or the Federal Maritime Administration take the ship off our hands at turn-in price, the $10 million, which is the price we believe we can get for the ship if we were authorized to sell it to a NATO country, either that or more.

The CHAIRMAN. With that understanding, the Maritime Administration in conjunction with the United States Lines asked for bids on a ship to replace the *America*?

General FRANKLIN. Yes, sir.

The CHAIRMAN. That was with the understanding that the transaction would be under the 1936 act?

General FRANKLIN. That is correct, sir.

The CHAIRMAN. Had you reached an agreement with the Maritime Administration under which you could build a ship?

General FRANKLIN. No, sir. We were never able to come to an agreement with the Federal Maritime Bureau that would result in the ship being built for $47 million under the conditions that I just outlined.

The CHAIRMAN. Then, gentlemen, why were bids requested for a replacement ship and all the operation of going through the bidding initiated and carried out, if it was known at the time that you could not meet the requirements of the 1936 act and that the Maritime Administration could not meet your requirements?

General FRANKLIN. I do not think, Mr. Chairman, that that could be really determined until after both the Maritime Bureau and ourselves knew that a second steamship *United States* would cost.

The CHAIRMAN. To ascertain what the situation would be, you and the Maritime Administration agreed to go ahead and ask for bids on the ship?

General FRANKLIN. Yes, sir.

The CHAIRMAN. Then when the bids were in and the low bidder had been announced, did you reach the conclusion, and also the Maritime Board, that this contract could not be carried out for the construction of the ship?

General FRANKLIN. I think that is putting it fairly, sir. I think that is right.

The CHAIRMAN. Is that what took place?

General FRANKLIN. I would say "Yes."

The CHAIRMAN. Had these figures that you have set forth here been shown the Maritime Administration prior to the asking for bids?

General FRANKLIN. You mean the earnings figures?

The CHAIRMAN. The figures setting forth the conditions under which you could build a new ship.

General FRANKLIN. Yes, I would say they had.

The CHAIRMAN. Then the cost of the new ship reflected in the low bid on the new ship evidently was far beyond that which the Maritime and the United States Lines anticipated?

General FRANKLIN. The bid was higher than we anticipated and I think it was higher than what the Federal Maritime Bureau expected. However, I think you better ask them that question, sir.

The CHAIRMAN. Under all provisions of the 1936 act you have come to the conclusion that the United States Lines simply cannot build a proper replacement for the *America*?

General FRANKLIN. I say that is a correct statement; yes, sir.

The CHAIRMAN. Therefore it is necessary that some special legislation be enacted should the United States Government desire a replacement for the *America*?

General FRANKLIN. Yes, sir.

The CHAIRMAN. In your broad experience in shipping, ship operation, and ship construction, is there any other operator that can build under the 1936 act such a vessel as is contemplated here?

General FRANKLIN. Sir, you say build.

The CHAIRMAN. And successfully operate; an intelligent operator, we will say.

General FRANKLIN. I do not like to appear boastful about the United States Lines organization—they are really the people who run this ship—but it took a long time and long experience with the *Manhattan*, and the *Washington*, and the *America* to get a crew that could successfully operate the steamship *United States*, and again knocking on wood, that crew operated that ship extremely well. I think that answers your question.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. General Franklin, how did you arrive at this $47 million figure?

General FRANKLIN. The way we arrived at that, Mr. Tollefson, was that we took the figure at which the steamship *United States* stood us on the books and we figured what was the maximum we were going to be able to get for the *America*, the absolute maximum. We added that to the steamship *United States* cost and we put in the figure of $47 million. It may be a little high.

Mr. TOLLEFSON. I was wondering if you took any consideration of the fact that this was the maximum capital you could invest in a new ship and expect to successfully operate it.

General FRANKLIN. That is correct. That is a good addition. That is exactly right. We came to the conclusion that about $35 million was the maximum capital that we could put into a sister ship to the *United States* and have any chance of making a profit.

Mr. TOLLEFSON. You had something to do with water transportation in one of our wars, as I remember it. Just what was your position during the war?

General FRANKLIN. I was fortunate to serve, sir, as Chief of the Water Division of the Transportation Corps, and in the last year or two of the war I was Assistant Chief of Transportation. The duty of the division of which I was in command was to carry the troops and supplies overseas. We took over the passenger ships and supervised in many cases their being refitted to carry troops. We got a lot of experience during that period—Colonel Hicks was with me—with troopships. It is perfectly obvious that the ideal ship to carry troops, if we are unfortunate enough to get into another war, would be a ship like the steamship *United States*.

Bearing in mind when I went back as president of the United Staes Lines with that experience, and also I will frankly admit having

in mind it was probably the best possible ship for the North Atlantic passenger service, we urged the building of a steamship *United States*.

Mr. TOLLEFSON. As I recall earlier statements by you before this committee, it was necessary during the war to utilize the passenger ships of some other countries, wasn't that true?

General FRANKLIN. Yes, sir; particularly the British ships. The *Queen Mary*, the *Queen Elizabeth*, and the *Aquatania*—they were called the 3 monsters—carried abroad 750,000 both ways, I think it was.

Colonel HICKS. The two *Queens* alone carried 938,201 United States personnel both ways.

Mr. TOLLEFSON. Maybe our British friends say that that didn't cost us anything. I choose to think differently. However, assuming that I am correct, the utilization of British vessels cost Uncle Sam a considerable number of dollars, didn't it?

Colonel HICKS. $75,056,000 reverse lend-lease.

General FRANKLIN. I think you should add to that, sir, that those ships—I am quite sure this is true—were supplied with fuel oil by the United States in many instances that should be added to that bill. I would think if you set the figures at $100 million, you would be very close to the right figure.

Mr. MILLER. Is that just the two *Queens* that cost that?

General FRANKLIN. That is the two *Queens*, yes, sir. I thought the *Aquatania* was in it. She carried some troops, but Colonel Hicks has the figures here. That is the two *Queens*.

Mr. TOLLEFSON. My purpose in asking the question is that in your statement you say in the form of a question:

> The problem before us is, "Does the Government want and need a sister ship to the *United States*?"

I appreciate the fact that you are no longer connected with the transportation end as far as the Government is concerned, and are connected with the company, but you have had some experience and I would like to ask you what your opinion is with respect to the Government needing a ship of this type.

Do you think the Government ought to build a ship of this type?

General FRANKLIN. I do, sir.

Mr. TOLLEFSON. You make that flat statement on the basis of the experience that you had during World War II?

General FRANKLIN. Exactly right, sir.

Mr. TOLLEFSON. I think that is all, Mr. Chairman.

The CHAIRMAN. Enlarging on Mr. Tollefson's questioning about the figure of $47 million, is that figure substantiated by the figures on the present *United States?*

Colonel HICKS. The answer is yes, Mr. Chairman.

The CHAIRMAN. I think the record should have that clear.

You mean you arrived at that figure from the financial statements now available of the operation of the steamship *United States?* Is that correct?

Colonel HICKS. That is correct. If we paid much more we wouldn't be able to get an old dollar for a new one. In other words, we wouldn't be able to make a profit.

The CHAIRMAN. With further respect to Mr. Tollefson's questioning about the utilization of the *Queens*, it was not the dollars; it was an absolute necessity irrespective of the cost. Is that correct?

General FRANKLIN. I think that is an excellent question, Mr. Chairman, and the answer to that is that it was a very fortunate thing that this country was allied with the British and could use the *Queens* because all through the last war this country up until the spring of 1945 was short of ships, and particularly troopships, and there were divisions that were in this country that took longer than their 6 months' basic training that could not be moved through lack of transportation. Not only the troopships, but when a division moved there had to be 8 measurement tons per man go with it or precede it. That was equipment, and then 1 measurement ton per man per month to support that division overseas.

The CHAIRMAN. There was no alternative irrespective of the $75 million. There was no alternative, we had no ships to take their place. Is that correct?

General FRANKLIN. Exactly right, and there were no other ships available.

The CHAIRMAN. We are now in the same position we were then; are we?

General FRANKLIN. Well, you have the steamship *United States*, but I would say the answer to your question is "Yes." We are in the same situation or maybe worse.

The CHAIRMAN. Have you cured the deficiency by the construction of the *United States?*

General FRANKLIN. No.

The CHAIRMAN. Mr. Garmatz.

Mr. GARMATZ. Just one question:

What about the *America* going out of service in 1958? Will that bring your percentage down?

General FRANKLIN. Mr. Garmatz, I can't conceive of the *America* being scrapped. As you remember, Admiral Mumma testified before this committee that the Defense Department would have no objection to the *America* being sold to a NATO country. Either she can be sold to a NATO country or taken over by the Federal Maritime Bureau, in which case she will be laid up and be available for an emergency, so the taking out of service of the *America* will not reduce your troop lift in event of war.

Mr. GARMATZ. General, with respect to the propulsion of this new vessel, are you convinced that the present conventional type of powerplant will not become obsolete within the expected life of this new ship?

General FRANKLIN. Mr. Garmatz, that is a very important question and we have made, as you would imagine, a very careful study of the matter.

I, as you know, had no previous knowledge of the introduction of your bill. We have made a very careful study of the matter and I have a statement on the subject that I would like to put in the record. I think it is very important.

May I go ahead with that, Mr. Chairman?

The CHAIRMAN. Yes, sir.

General FRANKLIN. Although, as stated previously in our testimony, the United States Lines has no obligation to replace the steamship *America*, we do consider that it is the duty of the United States Lines, which is the principal Government-subsidized line on the North Atlantic, to come forward with a proposal for the replacement of the steamship *America*. In our opinion, this should be in the form of a sister ship to the steamship *United States*.

Naturally, in this connection we have given careful consideration to the possibility that the sister ship to the steamship *United States* be equipped with nuclear propulsion.

I am not an engineer and know very little about nuclear power. However, we have talked to a number of competent engineers and with our naval architects, Messrs. Gibbs & Cox, and it would appear that the cost of the engineering plus the cost of the reactor or reactors to supply power equal to that of the steamship *United States* would be very high.

I quite understand that under your bill, Mr. Garmatz, the proposal is to build a ship and sell it to the United States Lines for $47 million, so the initial cost, so far as we are concerned, is not the controlling factor.

It is our understanding that the United States Navy is going ahead with the engineering for a large naval unit—airplane carrier, as I understand it—the power of such unit to be about the same as that necessary for a new steamship *United States*. It is possible that such a unit will be in operation within 3 or 4 years. The experience with this ship and with the nuclear-powered ship being constructed by the Maritime Administration should be an excellent guide in connection with atomic power for a new steamship *United States*.

Until such time as a large ship using atomic power has been successfully operated, there is grave doubt in my mind whether insurance, both hull and protection and indemnity, could be obtained in the commercial market for a sister ship of the steamship *United States* equipped with atomic power.

Mr. Chairman, it is also my opinion that your committee, which seems to me is approaching this question of the replacement of the steamship *America* in a most intelligent and practical way, is in an excellent position to get information on this subject.

I do not wish to give the impression of being opposed to the building of a sister ship to the steamship *United States* equipped with nuclear power. There is little doubt in my mind that several years from now the building of such a ship will be entirely feasible.

The United States Lines firmly believes that we should put into service, if possible, ships that are in advance of the competition. As an example, I think we proved that when we caused the steamship *United States* to be designed; when we purchased nine Mariner-type cargo vessels, the fastest freight ships in the world; and we are presently working on plans for a new cargo ship which we hope will be an advance as far as cargo-handling facilities are concerned.

We would be delighted if the United States Lines could be the first company to put into service a large nuclear-propelled passenger ship. However, at the present time we have no knowledge as to the cost of fuel for a nuclear-propelled ship; how often the fuel would have to be renewed; how long the ship would have to be laid up when the

fuel is replaced; what the position is as regards insurance and other matters.

Let me explain that a little bit. A naval ship can make a cruise and then be laid up for a month or more. In order to come out at all with this steamship *United States* we have to keep her moving. She has to make her 22 voyages a year. I cannot come before you gentlemen and talk intelligently about a nuclear-powered steamship *United States* when I don't know how long the ship might have to be laid up while she was being refueled.

The CHAIRMAN. Let me interrupt you, General. The schedule of these hearings have taken into account the advisability of having the nuclear phase of this replacement discussed by the Atomic Energy Commission and those who have had experience with that type of power, so we are going to come to that later in this series of hearings.

General FRANKLIN. I am glad to hear that, sir. I will be very interested.

Until experience is gained that will enable these and other questions to be answered, we obviously cannot soundly recommend the building of a nuclear powered ship.

Therefore, if it is the judgment of the Congress and the Government agencies interested, including the Navy, that a sister ship to the steamship *United States* should be laid down immediately, then we will have to proceed with a ship of conventional power. The United States Lines is perfectly prepared to proceed with such a ship immediately on the basis outlined previously in this testimony.

When it is considered that from a national defense point of view the sooner a new steamship *United States* is laid down the better, and also from the point of view of passenger competition on the North Atlantic the sooner we have a new ship the better, the arguments favor, in my opinion, our proceeding with a ship of conventional power immediately.

The CHAIRMAN. General, to get away entirely from the nuclear discussion, and following your general statement of subsidy agreement on page 2, we have recently noticed a proposal to extend the life of ships from 20 to 25 years.

I do not know where we could get more expert testimony as to the economic advisability of operating a ship after 20 years than from practical operators and successful operators, so getting back to this contract with respect to the *America* and extending the subsidy period, would it be economically advisable to extend the subsidy contract over another period, and what would be the effect of the extension on the recapture possibility with respect to the United States Lines?

It would reflect on all your other operations, I presume. Is that true?

General FRANKLIN. Yes, sir. That of course is a very important question that you have asked and it takes in a good deal of territory.

The CHAIRMAN. Have I made myself clear?

General FRANKLIN. Yes, sir.

The CHAIRMAN. The discussion may be, if we do bring this legislation to the floor, that here is a great ship. Here is a ship that has a great deal of value in a defense effort and some other country would be interested in buying and operating it. The question might be asked: Under the conditions with which we have to operate is it eco-

nomically advisable and practical to the United States Government as well as to the private operator to continue the operation of this ship?

General FRANKLIN. Yes, sir.

The CHAIRMAN. I would like your associates and you to put something in the record of that nature.

General FRANKLIN. The *America* is in very good shape. The *America* is steaming 22 knots on 260 tons of oil a day, which is almost exactly what she did when she first came out.

As you know, the first part of a ship to deteriorate is the main engines. There isn't the slightest doubt in my mind that the *America* can well go on for 5 to 8 years more steadily, and if that wasn't so we would not have some of these foreign companies coming around and asking us if we will sell them the ship, if and when we build a new steamship *United States*.

I have given a good deal of thought to this question of extending from 20 to 25 years the life of vessel generally, I would like to put this in the record.

In my opinion the Merchant Marine Act of 1936, as amended, has proved during the last 20 years to be a very sound piece of legislation under which the merchant marine we have today has been achieved. Under that act, the Federal Maritime Board has authority, if the circumstances warrant it, to extend the life of a subsidized ship beyond 20 years of age. I do not believe a hard and fast rule of a stipulated number of years of life for all ships in all trades is practical. Nor do I believe it is in the best interest of the merchant marine, because I think it would tend more to have an obsolete fleet, so I don't believe in that extension as a general rule.

The question of the life of a ship depends upon the trade in which the ship is operated. In trades like our Australian trade, over the Pacific, where the weather is moderate and cargoes mainly bulk cargoes, I believe a ship might have more than 20 years of useful life.

In trades where the weather is rough, particularly in the wintertime and where new, fast, efficient ships are constantly being put into operation by our competitors, a 20-year life of a vessel might well be certainly long enough.

I particularly have in mind the New York-Antwerp and Rotterdam-Amsterdam trade where we are up against 14 foreign lines and we have to get some faster ships in there, whereas, to Australia, on the other hand, you can use some of the older ships.

Of course, you must bear in mind also that the new ships are going to stand you on the books at a much higher figure, and the older ships if they are still efficient can help you carry some part of that burden.

The CHAIRMAN. Have you considered the economic advisability of operating the *America* for an additional 5 or 10 years from the point of view of your company and the Government's interest?

General FRANKLIN. Yes, sir. I would prefer both from the point of view of the Government and from the point of view of our company a new steamship *United States* on there as quickly as possible.

The CHAIRMAN. What do you substantiate that with? Do you have figures from your operating costs to show that it would be advantageous?

General FRANKLIN. The *America* has not been profitable in the last few years, no, sir, that is true, Mr. Chairman, and if you would like us

to put in the record the operating results of the *America* for 1956 and 1957 we will be glad to do it, or longer.

There is one other thing, Mr. Chairman, if you will allow me to enlarge on that a little. A new steamship *United States* would give us another thousand berths. She would carry 2,000 against the *America's* 1,000, and that would be of advantage to us because a number of the agents are saying to us "We have to do business with the competition, as at times you can't take care of us. Your ships are full in the heavy season," so that other thousand berths would be a great advantage to us.

The CHAIRMAN. What percentage of the operating subsidy is there between the *United States* and the *America?*

Is it advantageous to the Government to continue the *America?* That is what I am driving at. Certainly it would be reflected in your operating costs. It would show clearly what it is costing the Government to operate the *America* as against a new ship.

General FRANKLIN. Yes, sir. Read them off.

Mr. GIBBONS. The operating differential subsidy accrued for 1957 for the *United States* amounts to $6,630,908. For the *America* the operating differential subsidy for the year 1957 was $4,319,999.

Mr. MILLER. What is the first year? The same?

Mr. GIBBONS. Yes, sir.

General FRANKLIN. The *United States* has a crew of 1,050 and the *America* has a crew of 668, and as you gentlemen know, the subsidy is based on a percentage of the crew's wages.

The CHAIRMAN. If you are losing money on the *America* it must reduce your position with respect to recapture.

General FRANKLIN. Yes, sir.

The CHAIRMAN. That is what I am driving at.

General FRANKLIN. I think that is a good point.

The CHAIRMAN. Just how much does it? To what extent?

Colonel HICKS. Mr. Chairman, over the last 5 years, from 1953 through 1957, the net result of the operations of the same ship *America* was a loss of $1,137,101. That loss goes into what we call the subsidy pot, and excess earnings on our cargo ships take care of 50 percent of this loss. That reduces your recapture.

If we had a new ship, which we think will operate at a profit, this will be eliminated.

The CHAIRMAN. You reduce your recapture operation $1 million plus?

Colonel HICKS. Yes, sir.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. General Franklin, if you were free to buy this projected ship in a foreign yard or if one of your competitors was going to buy it, what would it cost?

General FRANKLIN. That is hard for me to say, Mr. Allen, but I would think over the years since the war the pattern has pretty well been that a ship will cost half as much in a foreign yard as here.

Mr. ALLEN. Would that mean that this ship would likely cost the United States Lines or a competitor $65 million?

General FRANKLIN. It might. Of course you must bear in mind that there are a great many features in this steamship *United States*

that are national defense features. For instance, she can make a thousand tons of fresh water a day. There are evaporators. We don't need that for our trade. She is air-conditioned all through. She has great fuel oil capacity, much more than we need, and she was built from the keel up as a troopship, or to have all the facilities for a troopship. She has a lot more toilet facilities than she needs.

Mr. RIVERS. Have you got any place for reinforcements?

General FRANKLIN. Yes, sir; she is reinforced to carry guns. As I remember it, the ship can carry 10 dual purpose 5-inch guns and 20 quads. That is what I think Gibbs testified.

Mr. ALLEN. If you eliminated all the national defense features and just built yourself a new ship that was competitive against your future competitors, what would it cost to build such a ship foreign?

General FRANKLIN. Well, Mr. Allen, I cannot substantiate the statement I make, but in my opinion you build such a ship foreign for $47 million.

Mr. ALLEN. To carry it one step further, everything over $47 million is either in defense features or is for the accomplishment of having a ship building industry in the United States and doesn't inure to the operator of the ship at all?

General FRANKLIN. That is exactly right.

Mr. ALLEN. I get a little puzzled on this financing transaction. If you borrow Government money at 3½ percent does that mean that you will get approximately 75 percent of the cost of the ship from the Government?

I am just talking about the $47 million.

General FRANKLIN. Yes, sir. I am very glad, Mr. Allen, you brought that up, because I would like to make our position clear on that. I am inclined to think that there is going to be some controversy over that one. I would like to put this in the record. We have explored the possibility of privately financing our 75 percent, of the cost of the new ship, which will make it necessary for us to borrow $35,250,000 to be paid off one-twentieth each year over 20 years. We have found that the interest rate on such a loan would be in the neighborhood of 4¼ to 4½ percent plus an insurance fee to the Government of three-quarters of 1 percent which would bring the interest costs to us between 5 percent and 5¼ percent.

In addition, we would have to pay to a bank a commitment fee of one-half of 1 percent while the ship is being built.

We have gotten these figures by going to the various banks and insurance companies in New York and I am quite sure they are correct.

The Merchant Marine Act of 1936 provides that the Government can loan money for shipbuilding at 3½ percent per annum. If the money is borrowed from the Government, there will be no insurance fee and no commitment fee.

The difference in cost to the company over 20 years between 3½ percent per annum interest and 5 percent per annum interest is $5,551,000. If the ship is purchased with private financing, it will increase the cost of the ship tons by that amount.

I understand it is possible for the Federal Maritime Administration to insure the loan at a half of 1 percent. Mr. Morse told me yesterday that that was possible and I think there would be a very good

chance that we could get the Government guaranty at a half of 1 percent, which would reduce this figure of $5,551,000 by about $100,000.

Whether the ship is financed publicly or privately with Government insurance guaranteeing the loan, the Government assumes all the risk in the event of default. So far as I know, there has never been a default on a construction loan made by the Government. It is difficult to understand why the Government chooses to assume the whole risk in both types of financing, when with public financing the Government receives an income of interest at the rate of 3½ per annum, reducing as payments are made on the mortgage and assumes the same risk in both cases.

The long-term Government bonds outstanding at this time carry interest rates ranging from 2½ percent per annum to 4 percent per annum. The Treasury, on February 3, offered a bond payable in 32 years with an interest rate of 3½ percent.

It may be that the return to the Government on that bond may be more likely about 3¼ percent because they have to pay something to get the bonds marketed.

The average coupon interest rate on the long-term Government bonds now outstanding is 2.60 percent.

We see merit in the Government not wanting to loan money at interest rates less than what they are paying to borrow money from the public. However, we also see merit in the Government loaning money at an interest rate greater than it is paying on its long-range financing securities.

The company is ready to pay either the 3½ percent interest which is in the law, or pay the Government the rate at which they can borrow money for a long term, whichever is to the best advantage of the Government.

In other words, I don't think the Government should be asked to loan us money at less than what they can borrow it for, but I do think we should not have to try to go out into the market and borrow money at 4¼ or 4½ percent on which there is a Government guaranty, and if we have to do that it will increase the cost of this ship about $5 million and from the figures you see that makes her impossible.

I think that is a very important subject and I would like to make it clear that we are perfectly ready to take the interest rate at which the Government is borrowing money.

Mr. ALLEN. I get a little puzzled in these contracts between the Government and subsidized operator in trying to figure out who is doing whom a favor and just what the favor is.

Under these contracts it is your agreement, I believe, to keep a ship in good condition for the 20-year life of the contract and to keep the ship operating in the trade that is specified in the contract. That is right, is it not?

General FRANKLIN. That is right, sir.

Mr. ALLEN. In addition to that it would look as though your company would put up a quarter of the capital and the Government would put up three-quarters of the capital, and during normal times, disregarding the technical phases of ownership and so forth, you can act as the owner, and in emergency times the Government takes it over and it acts as the owner, isn't that about it?

General FRANKLIN. That is exactly right, sir, and of course the Government has the right to take the ship over at the depreciated

cost, so the company can make no profit at all on the money they put in.

Mr. ALLEN. Going a little further, when the Government puts up three-quarters of the capital it gets paid back over the 20-year period and meanwhile it gets the earnings on that capital at the figures you have quoted, or virtually does, having in mind that you make 3.76 and you have been paying 3.5 for the money, so in effect the Government gets all of the return on its capital investment and you get the return on your capital investment. Is that right?

Mr. GIBBONS. I don't think, Mr. Allen, you can answer the question just that way because, remember, this ship is just one ship in a large fleet and the Government's participation in the earnings depends upon the earnings of the large fleet.

If you take the *United States* alone over the period of its operation it has not made the full 10 percent of capital employed that is provided for in the law before the Government participates in recapture, but if you add that in as one element in the total fleet, the Government has recovered a considerable amount of subsidy. However, you cannot answer the question yes or no with respect to one ship.

Mr. ALLEN. My own opinion is it is relatively about the situation I stated. However, going into the matter of depreciation and the repayment of the mortgage, isn't it true that over the years if times are normal and you operate the ship, then you pay back to the Government all of the capital it invested through the writing off of the depreciation, on the one hand, and paying installments on the other?

General FRANKLIN. All the capital that they loan us.

Mr. ALLEN. That is all the capital the Government invests, not counting the differential.

General FRANKLIN. For construction subsidies.

Mr. ALLEN. Is it true also that if during the period the Government assumes ownership, then it does so by paying what you have in the ship and it takes over?

General FRANKLIN. Exactly.

Mr. ALLEN. So if we have normal times you own the ship for the whole time and if we are in an emergency for the whole life of the ship the Government would own it?

General FRANKLIN. Exactly right. It makes it impossible, and very properly so, for the United States Lines or any other company to make a profit on the ship if the Government takes her over for a national emergency.

Mr. ALLEN. I still haven't figured out who is doing whom a favor.

General FRANKLIN. I think it is a debatable question.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Robeson.

Mr. ROBESON. General Franklin, you have answered a lot of questions and some of them I had in my mind. About when would you expect the earliest date that a sister ship of the *United States* would go in service?

General FRANKLIN. I believe, sir, 39 months.

Mr. ROBESON. Not from now?

General FRANKLIN. From the time the contract is signed.

Mr. ROBESON. I mean will that be 2 years from now, or 3 years from now, or what? You can't guess?

General FRANKLIN. I think that depends a good deal on you gentlemen.

Mr. ROBESON. What I had in mind was then seems to be a probability, certainly a possibility of great development in nuclear power.

Is it your opinion that the present design of the *United States* would lend itself to substituting nuclear power?

General FRANKLIN. Mr. Robeson, that is an excellent question and I wish I could say yes to it, but I cannot get any of the shipyards to tell me yes. I want to reiterate I am not an engineer. I think that the weight of the reactors in a ship the size of the *United States* would be pretty close to the same as the weight of the boilers plus the weight of the fuel oil that the ship takes on in New York to make her round voyage, which is about 7,000 tons. It might be some less. You would have to strengthen the ship, so they tell me, for the sheathing and all, for the reactors. There is one other point that is important. If you had reactors and not boilers you would not have to have any uptakes from the engine room so you would not have to have the big stacks and the uptakes coming through the center of the ship.

The shipyards tell me that if you build a Steamship *United States* with conventional power they do not think it is feasible then to put in nuclear power.

In my opinion, what is true today about nuclear power may not be true 5 years from now. This thing may go a lot faster than we think. In my own opinion it may be possible. It would be a major overhaul job, but I am not competent to answer your question.

Mr. ROBESON. The next question would be: Could a modernization of design in such a ship suit both purposes?

General FRANKLIN. I don't quite get you.

Mr. ROBESON. If we design the ship for conventional power we can't very well have a ship you would have designed if you knew you had nuclear power. There would be much more change in design in changing to nuclear power.

General FRANKLIN. Exactly.

Mr. ROBESON. Since that would be of interest primarily to the Defense Department then nuclear power would be a Defense Department feature?

General FRANKLIN. I would think so.

Mr. ROBESON. You could operate a ship with conventional power, but you could also operate a ship with nuclear power if it was feasible and practicable.

General FRANKLIN. Yes, sir. All I say to that, Mr. Robeson, is I can't tell you what the operating cost of a nuclear ship would be. I don't know.

Mr. ROBESON. However, there is a probability at least that nuclear power should be considered as not too far ahead maybe?

General FRANKLIN. As I said in my statement on the subject, I would like very much to see the United States Lines come out with a big passenger ship with nuclear propulsion, but when that is going to be possible I do not know.

Mr. ROBESON. It would be highly desirable in the case of need for defense, though, to have such a ship, wouldn't it?

General FRANKLIN. I would think so, sir, but I should think you better ask one of these naval officers that question.

Mr. ROBESON. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Van Pelt.

Mr. VAN PELT. No questions.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. General, I would like you to turn, if you will, to the matter of the two *Queens* carrying 938,000 troops. Over what period of time was that?

General FRANKLIN. It was from the time this country went into the war, Mr. Miller, until, I would think, 3 months after the war ended, when they were returning American troops from Europe.

Mr. MILLER. About a period of 4 years?

General FRANKLIN. Yes, sir.

Mr. MILLER. Therefore, each of them carried approximately 115,000 troops a year over that period, as I figure it, two ships for 4 years then dividing 938,000 by 8.

General FRANKLIN. Yes, sir.

Mr. MILLER. What would be the capacity of the *United States* a year in transporting troops?

General FRANKLIN. I never figured that out.

Mr. MILLER. The Steamship *United States* if fitted with standing bunks—she already has her fresh water capacity, which was the bottleneck in all the ships we took over during the war—could carry 14,000 troops and if turned between New York and Gourock in Scotland where the *Queens* disembark and embarked, too, how many trips do you figure she would make?

Colonel HICKS. She would make 26 voyages and carry 350,000 men one way.

Mr. MILLER. In other words, her efficiency would be twice that of either *Queen* and then some left over?

Colonel HICKS. That is right.

General FRANKLIN. She could get to Gourock in less than 4 days.

Mr. RIVERS. Where is that port?

General FRANKLIN. It is off Glasgow, Mr. Rivers. It is called Gourock. It is a place where the *Queens* and the *Aquitania*, and the *America*, the big ships, delivered their troops.

Mr. MILLER. So that I figured roughly, saying 20 trips a year, taking it very conservatively, her efficiency would be rated twice that of either of the *Queens* in carrying these troops?

General FRANKLIN. Yes, that is true, but you must bear in mind, sir, that in the first part of the war we weren't using the *Queens* heavily to carry American troops.

Mr. MILLER. I appreciate that. I was just trying roughly to figure out a yardstick against this 100 million dollars that we would write off in the event of an emergency.

In the case of 4 years over $100 million would be the cost if we had the *United States*. You can't measure dollars in time of war. You would pay five times that for her in the event of an emergency if you didn't have her and tried to get her at that time, wouldn't you?

General FRANKLIN. I think that is right. I think to be accurate that the *United States* could easily make 26 voyages a year between New York and Gourock.

Mr. GIBBONS. 350,000 men one way.

Colonel HICKS. Her troop capacity is 13,864 troops. Of course you also have your gun crew and your ship crew on there, but the troops themselves would be 13,864.

Mr. MILLER. It would be then 305,000, because you would only be taking them one way at the beginning.

Mr. GIBBONS. That is right.

Mr. MILLER. General, have you ever considered this matter: That the Government lends money for other phases of our economy when it is used to stimulate our economy, and to increase the capital investment in this country?

The merchant marine is essential and we have a right to consider that just as much as we do, for instance, the great irrigation developments that are taking place in the West, and I am for development of the west through irrigation.

Have you ever considered that in the matter of irrigation the Government lends money to the people who benefit by it at no cost?

The thing that they pay back is the cost amortized over a period of years, at no interest. Does not shipbuilding stimulate the economy of the country, the employment that is given to people, the ability to control our own outlet of goods which are so essential to us, and isn't it just as important in your mind as, for instance, an irrigation project that would cost $100 million to have a ship like the *United States* built?

General FRANKLIN. I agree with that, Mr. Miller.

May I add one thing to that? I will send to each member of the committee a statement that I made before the National Defense Association last November which purports to trace how much of the money the Government has spent for construction differential subsidies and/or operating differential subsidies, goes back to the Treasury in the form of taxes.

It is an amazing figure.

Mr. MILLER. I want this to show that I have supported 90 percent of the cases of the Government irrigation projects that have come before the Congress, because I think it is a real capital investment in this country, just as I think that shipbuilding and the maintenance of our ships is just as much a capital investment and serves another segment of the community just as agriculture is served by our reclamation and irrigation projects, and we give these people money at no interest to carry on those things.

General FRANKLIN. I agree with you, sir.

Mr. MILLER. That is all.

The CHAIRMAN. I would like the statement that you speak about sent to the committee, and be inserted in the record at this point.

(The material to be supplied follows:)

THE AMERICAN MERCHANT MARINE

ITS IMPACT ON THE ECONOMY OF THE UNITED STATES

An address by Maj. Gen. John Franklin, president, United States Lines Co., before the National Defense Transportation Association in Washington, D. C., November 19, 1957

It is a privilege to have the opportunity again to talk before the annual convention of the National Defense Transportation Association.

During the past 12 years, through its annual conventions and chapter meetings, the National Defense Transportation Association has accomplished much

in the way of educating the American public of the need for a strong American merchant marine prepared to serve the Nation as a necessary arm of our national defense in case of an emergency and serve the Nation in peacetimes by carrying our exports and imports.

There can be no question but that the American merchant marine is needed for the national defense and to develop our foreign and domestic commerce. These two functions are really one in today's world, because a healthy flow of commerce and a strong economy are necessary to the national defense.

An American merchant marine is vital to our military preparedness. World War II and Korea proved that we must have our own ships to meet the urgent demands of war on worldwide battlefronts. We cannot rely on ships of other nations in such critical times.

Underlying our military strength is our economic strength and economic strength is the bulwark of our general welfare and our world position.

The Merchant Marine Act of 1936 provides the sound foundation on which our present American merchant marine has been built. I am sure you are all familiar with the provisions of the Merchant Marine Act which, among other things, provides for an operating-differential subsidy, the purpose of which is to achieve a parity between the cost of operating an American-flag vessel and the cost of operating the same vessel in the same service under a competitive foreign flag. The operating-differential subsidy does not insure a profit nor insure against loss. It merely establishes parity.

As of December 31, 1956, there were 14 American shipping companies operating 303 vessels which had executed operating-differential subsidy agreements with the Federal Maritime Board. Many statements have been made in the past as to the actual cost to the American taxpayer of the operating-differential subsidies.

In my opinion, we at last have the answer.

Since 1946 (operating-differential subsidy payments were discontinued during World War II), the total subsidies paid up to December 31, 1955, after deduction of recapture of 50 percent of the subsidy paid over and above 10 percent of capital necessarily employed, amounted to $499 million. But this is not the cost to the American taxpayer. Offsetting this cost are the taxes paid to the Government, directly and indirectly, resulting from the operations of the subsidized lines.

Since 1946, Federal income taxes paid by the subsidized lines amounted to $172 million. Personal income taxes paid by seagoing personnel of subsidized lines are estimated to have been $140 million and personal income taxes paid by shoreside personnel and labor hired by subsidized lines are estimated to have been $110 million. Therefore, the total taxes paid by subsidized lines during the period from 1946 to December 31, 1955, were $422 million or 85 percent of the net subsidy paid to the subsidized lines. But this is not the whole story. The offsets mentioned are taxes paid to the Government as the result of operations of the subsidized lines but do not include taxes paid by allied industries, such as ship repair yards and suppliers with whom the subsidized lines spend many millions of dollars annually.

If all taxes paid to the Government directly and indirectly as a result of operations of the subsidized lines were taken into consideration, the net cost to the taxpayers, as a result of the operating-differential subsidy provisions of the Merchant Marine Act of 1936, is zero.

Furthermore, an operating-differential subsidy is not a one-way street. It requires a shipowner to operate its ships on specified essential routes; to maintain these ships with trained crews for ready conversion for war or other emergency purposes, and to provide for replacements when the ships have reached the age of 20 years. These are serious obligations. The cost of the replactments alone is estimated at $3 billion.

It also follows that the same holds true of the construction-differential-subsidies paid to American shipbuilders under the provisions of the Merchant Marine Act of 1936, i. e., that the taxes paid to the Government directly and indirectly resulting from shipbuilding in this country more than offset the actual subsidies paid.

Subsidies paid American shipbuilders represent the difference in cost between constructing a ship here and abroad. Without the subsidy we would have neither the ships under the American flag nor the shipyards with their trained personnel.

While we are on the subject of operating-differential subsidies and the net cost to the taxpayers, I must remind you that in the past on many occasions

there has been difficulty in obtaining sufficient appropriations by Congress to cover the initial cost of the operating-differential subsidy each year which, as I said before, in the end is all repaid to the Government directly and indirectly, in the form of taxes. In my opinion, the reason for the difficulty in obtaining sufficient appropriations is the fact that those in the Government who have the responsibility of providing for these appropriations, namely, the Bureau of the Budget and the Congress, have not been told the end result of providing these subsidies, which inturn result in a strong American merchant marine.

The remedy for this situation is that those Government officials who are vested with the responsibility of appearing before Congress requesting appropriations for the American merchant marine should tell the whole story in detail each year when asking for an operating-differential subsidy appropriation. If that were done, there should be no question but that all the money required to support the American merchant marine operating-differential subsidy program would be appropriated by Congress.

The situation might be further clarified with respect to appropriations for shipping if a separate budget and separate request for appropriations were submitted to the Bureau of the Budget and to Congress for the needs of the Merchant Marine Act alone rather than be included in the appropriations for the Department of Commerce, as they are now.

Now let us turn to the impact that the American merchant marine has on our economy.

The American merchant marine is far more than a fleet of ships. It includes trained sea-going crews to man the ships and shoreside personnel to build and repair them, to load and unload cargoes, and to manage the industry business affairs. It includes shipyards, warehousing facilities and port services and equipment. It includes a huge industrial and clerical army to furnish services and supplies. The impact of these primary segments of the American merchant marine on our economy can be estimated on the basis of data available for 1955. The impact on our economy can be measured in two different ways.

One way measures the total contribution of the industry to the economy in terms of money that passes from the industry through the hands of employees, stockholders, Government, suppliers and others.

The other way measures the direct spending of the industry as an employer, as a customer and as a consumer.

The total contribution to the economy growing out of the American merchant marine directly and indirectly is estimated at $5,300 million annually.

The contribution of sea-going and shoreside operations and shipbuilding activity can be set at $2,800 million a year. Of this total, the contribution of the American-flag fleet in foreign trade is estimated at $1,100 million; of the American flag fleet in domestic trade at $400 million; and of ship construction and repair industries at $1,300 million.

It is also estimated that American-flag ocean transportation each year generates other domestic transportation and handling services of export and import products apart from port activities in an amount totaling $2,500 million.

In addition, it is estimated that over $1 billion in earnings were generated by domestic movement of foreign-trade cargo—for warehousing, truck and rail movements and other handling—aside from ship loading and discharge.

In 1956, the privately owned American fleet spent an estimated $500 million as a customer for American goods and services—food for crews and passengers; fuel oil; stores and supplies; maintenance and repairs; insurance and other services.

Now let us look at the direct spending of the American merchant marine each year, including sea-going, shoreside and shipbuilding segments, which employ almost one quarter million workers and generate more than $2 billion annually in wages directly and indirectly.

The American-flag fleet alone, apart from shipyards, spends more than $500 million for American goods and services each year. In addition, the cost of material used in ship construction and repair has been more than $500 million a year.

The American merchant marine is also a substantial employer. The total direct employment of the merchant marine is estimated at 225,000 people. Of this, sea-going employment totals 70,000; shoreside employment, including longshore and dock employees, totals 90,000; and shipyard employment totals 65,000.

Compensation of all employees in the American merchant marine is estimated at more than $1 billion a year. The shipping fleet accounts for practically $470

million; longshore and dock employees accounts for $245 million; and shipyard workers account for $292 million.

I think you will agree that this is a substantial contribution to the economy of the country.

Another role which the American merchant marine plays which vitally affects our economy is that of a carrier of our exports and imports. It is an essential means whereby our industry and agriculture can sell their products abroad, and it is a vital link in bringing to our shores essential raw materials and products of other nations that our economy demands. In that role, the American shipping fleet is an instrument of national policy in maintaining our prosperity and rising standards of living and in strengthening our economic and political ties with other nations of the free world.

Here are some of the major effects of foreign trade on the United States economy:

Foreign trade, at record levels and going higher, employs 4½ million people and generates an estimated $13 billion annually in United States wages and salaries.

Key industries increasingly depend on exports to sell a large share of their production. For instance, cotton exports account for 17.6 percent of United States output; wheat exports for 29 percent; machinery exports for 19.1 percent.

Key industries increasingly depend on overseas sources of raw materials. Steel imports 18 percent of its iron ore; virtually all of its essential ferroalloys; aluminum imports 70 percent of its bauxites; imports of nonferrous ores and metals are up 70 percent in 6 years.

Long-term economic stability of all nations in the free world depends on self-sustaining trade based on mutual helpfulness and exchange of goods.

In conclusion, I think you will agree with me that the American merchant marine is a vital part of this Nation's economy, and if America were to be deprived of her merchant marine her economy would receive a mortal blow, and that the maintenance of our merchant marine under the provisions of the Merchant Marine Act of 1936 is accomplished at practically no cost to the taxpayers. We must not relax for 1 minute in our efforts to insure the continuance of a strong American merchant marine as the fourth arm of our national defense and a vital segment of our economy.

The CHAIRMAN. Mr. Ray.

Mr. RAY. No questions.

The CHAIRMAN. Mr. Zelenko.

Mr. ZELENKO. General, I think we are all convinced that a ship of this type is a necessity, particularly on the question of defense. My colleagues have covered most of that subject up to this point, but I should like to recap very briefly and without too much detail some of the thoughts that I have gathered here and ask you questions on them to see what your view is. I think it is well agreed that a ship of this type is uniquely essential to the defense of this country in time of emergency; isn't that right?

General FRANKLIN. Yes.

Mr. ZELENKO. Our experience in the last war shows that we used 2 ships of Great Britain, almost similar to this one, at a cost to this country of approximately $100 million.

General FRANKLIN. Yes, sir.

Mr. ZELENKO. At present rates perhaps that would be $150 million or more, with inflation, increased costs, and matters such as that?

General FRANKLIN. I think that is a proper statement.

Mr. ZELENKO. Those ships, were we to need them now, would not have the capacity, nor the speed, nor the defense features which might be necessary in a conflict at the present time, would they?

General FRANKLIN. That is correct.

Mr. ZELENKO. And yet we would be paying for them because we need them, in any event, whether they would have nuclear propulsion, conventional propulsion, or any other kind. We would need them?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. The reason that I bring the question up in this form is this: Putting it boldly this ship will cost about $128 million overall; is that correct?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. Your company is willing to advance $47 million.

General FRANKLIN. Yes, sir.

Mr. ZELENKO. Which means that the Government will be obliged to appropriate eighty-million-odd dollars, which is a figure that we, knowing the conditions, will have to show those not familiar with those conditions, is justified; is that right?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. One of the questions of course that we would have to answer would be, why spend $80 million for a ship at this time when money is so badly needed and perhaps can go in another direction? So my questions are designed to show that this will not cost $80 million, but perhaps could turn in a profit either in money or otherwise. I want that understood.

Now, it was brought out by Mr. Miller and of course, yourself, in mentioning the statement, that you had given before the National Defense Association that that return taxwise and otherwise was of an immense sum in building a vessel such as the *United States*, both in the yards and in its operation; is that right?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. By reason of its construction in an American yard we employ numbers of American laborers, do we not?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. We purchase from American industries.

General FRANKLIN. Yes, sir.

Mr. ZELENKO. And I assume, and I think we can all assume, that all of those people through their earnings one way or another pay an income tax, which is money that comes back to the Government.

General FRANKLIN. Exactly.

Mr. ZELENKO. I assume that is what you meant to indicate when you mentioned that your statement before the National Defense Association contained figures in that direction.

General FRANKLIN. Yes, sir.

Mr. ZELENKO. That is in construction.

Now, in operation you said before, that this vessel loads its fuel oil in the port of New York, which means purchase of oil in the States.

General FRANKLIN. Yes, sir.

Mr. ZELENKO. And going down the line again, tax return to the Government one way or another, American employment in the supplying of that fuel oil?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. You also use an American crew on the ship to operate it?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. The difference between the crew, let's say, of the old *America* and the new *United States* would be approximately four-hundred-odd men, would it not?

General FRANKLIN. That is exactly right.

Mr. ZELENKO. So that we would have on this vessel an additional 400 American seamen belonging to American unions, and you have had satisfactory service from them?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. Who would collect wages for themselves from which in turn they would pay income tax?

General FRANKLIN. Right.

Mr. ZELENKO. All of them live in the States, do they not?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. And they spend their money in the States, don't they?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. So that I think we can all agree then that this is a substantial monetary return in our economy; is it not?

General FRANKLIN. I think so.

Mr. ZELENKO. A great many of your supplies, I assume, are bought in the States.

General FRANKLIN. All of them. You can't say all. Say 95 percent.

Mr. ZELENKO. I would assume that some of your supplies would have to be bought abroad in case of necessity, some small percentage?

General FRANKLIN. Very small percentage. Fresh vegetables and a few items like that.

Mr. ZELENKO. Ninety-five percent of your supplies are bought in the States, and without belaboring the point again that all goes back into the American economy in employment, in taxes, and in business, does it not?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. That of course is not true of the foreign lines who do most of their purchasing back home?

General FRANKLIN. Exactly.

Mr. ZELENKO. This ship, we concede is a necessity in time of defense. Were we to go into a conflict tomorrow we could not have such a ship available regardless of how much we wanted to spend for it. We couldn't build her overnight, could we?

General FRANKLIN. No, sir.

Mr. ZELENKO. We couldn't now transport large numbers of troops, supplies or put a vessel into service which is as adaptable as the liner *United States* both in the North Atlantic and in warmer climates; taking into consideration that the *United States* has airconditioning and other necessary equipment?

General FRANKLIN. That is right.

Mr. ZELENKO. Let us suppose it was a necessity from a defense standpoint to build such a vessel, let us say by the Navy, to have it available. It would cost $128 million or more or less, but it would, in any event, be over $100 million?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. To have it ready in case of war. We have most of our carriers and our submarines ready in case of war, don't we?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. We are not using them now, but we want them when we need them. Let us assume—and I think it is a proper assumption from what we have heard here—that a ship such as the *United States* is a necessity in war.

Now, if the Navy built it and operated it, or let's say our military, it would bring no monetary return would it?

General FRANKLIN. That is a very good point, and the answer is "No."

Mr. ZELENKO. In peace time, the salaries, the supplies, the cost of maintaining a Navy crew on board that ship would be millions spent with no monetary tangible return. It would be in the nature of holding, as standby; is that right?

General FRANKLIN. That is right.

Mr. ZELENKO. What I am trying to prove sir, is that by your operating this defense ship in passenger service during peace time, the Government would be getting great benefit in commerce, taxes, and prestige, which would not be the case if the ship were in the military?

In other words, it would mitigate the cost to this country, wouldn't it?

General FRANKLIN. I think you put that very well. I agree.

Mr. ZELENKO. I am trying to put it in such way that I can explain to my constituents why it is necessary to spend $80 million at this time.

Coming down to one more feature, you folks said that the most that you could spend or advance either by mortgage or otherwise to this vessel would be $47 million, and without asking you to put the figures in at this time I assume that you have certain tables, and certain averages, and certain figures, let's say, over the last 5 years, revenue, depreciation costs, that you could have available perhaps to put into the record to show upon what basis you arrive at the $47 million; have you not?

General FRANKLIN. Yes, sir; right here.

Mr. ZELENKO. With the chairman's permission, may I ask that that table be put into the record, the basis for the $47 million bid. I think it would be too long and too complicated to have it read at this time.

The CHAIRMAN. I think that would be worthwhile. That will substantiate your figure of $47 million.

General FRANKLIN. That is right, sir.

The CHAIRMAN. Put it in the record; yes.

(The material to be supplied follows:)

UNITED STATES LINES CO.

Steamship "United States" and new passenger vessel costing $47,000,000—estimated operating results, 5½ years of operation, June 1952 to December 1957—based on result of steamship "United States" during this period

	Average (5½ years)		
	United States	New vessel	Total
Voyage revenue	$19, 567, 811. 34	$19, 567, 811. 34	$39, 135, 622. 68
Voyage expense	18, 664, 411. 14	18, 664, 411. 14	37, 328, 822. 28
	903, 400. 20	903, 400. 20	1, 806, 800. 40
Operating-differential subsidy	6, 187, 287. 83	6, 187, 287. 83	12, 374, 575. 66
Allocation, various income items	448, 258. 29	448, 258. 29	896, 516. 58
Total income	7, 538, 946. 32	7, 538, 946. 32	15, 077, 892. 64
Layup expenses	39, 189. 27	39, 189. 27	78, 378. 54
General administrative expense	1, 676, 956. 67	1, 676, 956. 67	3, 353, 913. 34
Advertising	465, 619. 16	465, 619. 16	931, 238. 32
Interest, at 3½ percent per annum	666, 234. 91	1, 093, 551. 45	1, 759, 786. 36
Depreciation	1, 614, 714. 19	2, 193, 750. 00	3, 808, 464. 19
Allocation, various expense items	337, 201. 22	337, 201. 23	674, 402. 45
Total expense	4, 799, 915. 42	5, 806, 267. 78	10, 606, 183. 20
Net result	2, 739, 030. 90	1, 732, 678. 54	4, 471, 709. 44
Less:			
Federal tax	1, 424, 296. 07	900, 992. 84	2, 325, 288. 91
Subsidy recapture			
Net profit	1, 314, 734. 83	831, 685. 70	2, 146, 420. 53
Cost of vessel	34, 967, 520. 00	47, 000, 000. 00	81, 967, 520. 00
Percent net profit to cost	3. 76	1. 77	2. 62

January 13, 1958.

UNITED STATES LINES CO.

Steamship "United States"—Estimated operating results, 5½ years of operation, June 1952 to December 1957

	1952	1953	1954	1955	1956	1957	Total
Voyage revenue	$9,586,082.52	$18,435,879.42	$18,598,349.00	$19,792,939.33	$20,949,233.13	$20,260,479.00	$107,622,962.40
Voyage expense	8,487,190.10	17,039,918.53	17,695,307.00	18,388,836.67	20,245,881.98	20,797,127.00	102,654,261.28
	1,098,892.42	1,395,960.89	903,042.00	1,404,102.66	703,351.15	[1] 536,648.00	4,968,701.12
Operating-differential subsidy	2,190,950.00	5,698,197.06	6,200,304.00	6,265,112.00	7,044,612.00	6,630,908.00	34,030,083.06
Allocation, various income items	296,300.10	458,780.22	471,946.35	408,143.41	436,857.44	463,393.10	2,465,420.62
Total income	3,586,142.52	7,552,938.17	7,505,292.35	8,077,358.07	8,184,820.59	6,557,653.10	41,464,204.80
Lay-up expenses	215,541.00						215,541.00
General administrative expense	867,329.51	1,702,401.28	1,835,598.82	1,705,448.11	1,576,675.74	1,535,808.23	9,223,261.69
Advertising	477,277.35	428,559.08	544,267.00	190,656.77	460,717.18	459,428.00	2,560,905.38
Interest at 3¼ percent per annum	403,882.93	735,791.85	714,879.00	609,965.20	611,748.57	588,024.44	3,664,291.99
Depreciation	790,017.12	1,478,750.01	1,579,663.00	1,684,478.86	1,674,009.52	1,674,009.52	8,880,928.03
Allocation, various expense items	173,530.80	336,532.59	329,035.60	316,614.00	357,128.04	341,765.71	1,854,606.74
Total expenses	2,927,578.71	4,682,034.81	5,003,443.42	4,507,162.94	4,680,279.05	4,599,035.90	26,399,534.83
Net result	658,563.81	2,870,903.36	2,501,848.93	3,570,195.13	3,504,541.54	1,958,617.20	15,064,669.97
Less:							
Federal tax	342,453.18	1,000,662.00	1,083,333.34	1,699,273.34	1,650,798.50	1,018,480.94	6,795,001.30
Subsidy recapture		473,276.68	209,257.80	151,180.90	164,964.52		998,679.90
Net profit	316,110.63	1,396,964.68	1,209,257.79	1,719,740.89	[1] 1,688,778.52	940,136.26	7,270,988.77
Cost of vessel	17,483,760.00	34,967,520.00	34,967,520.00	34,967,520.00	34,967,520.00	34,967,520.00	192,321,360.00
Percent net profit to cost	1.81	3.99	3.46	4.92	4.83	2.69	3.78

[1] Loss

UNITED STATES LINES CO.

New passenger vessel costing $47,000,000—estimated operating results, 5½ years of operation, based on results of SS. "United States" during this period, June 1952 to December 1957

	1952	1953	1954	1955	1956	1957	Total
Voyage revenue	$9,586,082.52	$18,435,879.42	$18,598,349.00	$19,792,939.33	$20,949,233.13	$20,260,479.00	$107,622,962.40
Voyage expense	8,487,190.10	17,039,918.53	17,695,307.00	18,388,836.67	20,245,881.98	20,797,127.00	102,654,261.28
Operating-differential subsidy	1,098,892.42	1,395,960.89	903,042.00	1,404,102.66	703,351.15	[1] 536,648.00	4,968,701.12
Allocation, various income items	2,190,950.00	5,698,197.06	6,200,304.00	6,265,112.00	7,044,612.00	6,630,908.00	34,030,083.06
	296,300.10	458,780.22	401,946.35	408,143.41	436,857.44	463,393.10	2,465,420.62
Total income	3,586,142.52	7,552,938.17	7,505,292.35	8,077,358.07	8,184,820.59	6,557,653.10	41,464,204.80
Layup expenses	215,541.00						215,541.00
General administrative expense	867,329.51	1,702,401.28	1,835,598.82	1,705,448.11	1,576,675.74	1,535,808.23	9,223,261.69
Advertising	477,277.35	428,559.08	544,267.00	190,656.77	460,717.18	459,428.00	2,560,905.38
Interest, at 3½ percent per annum	616,875.00	1,202,907.00	1,141,219.00	1,079,532.00	1,017,844.00	956,156.00	6,014,533.00
Depreciation	1,096,875.00	2,193,750.00	2,193,750.00	2,193,750.00	2,193,750.00	2,193,750.00	12,065,625.00
Allocation, various expense items	173,530.80	336,532.59	329,035.60	316,614.00	357,128.04	341,765.71	1,854,606.74
Total expense	3,447,428.66	5,864,149.95	6,043,870.42	5,486,000.88	5,606,114.96	5,486,907.94	31,934,472.81
Net result	138,713.86	1,688,788.22	1,461,421.93	2,591,357.19	2,578,705.63	1,070,745.16	9,529,731.99
Less:							
Federal tax	72,131.21	878,169.87	759,939.40	1,272,916.66	1,272,916.66	556,787.48	4,812,861.28
Subsidy recapture				71,720.27	65,394.49		137,114.76
Net profit	66,582.65	810,618.35	701,482.53	1,246,720.26	1,240,394.48	513,957.68	4,579,755.95
Cost of vessel	23,500,000.00	47,000,000.00	47,000,000.00	47,000,000.00	47,000,000.00	47,000,000.00	258,500,000.00
Percent profit to cost	.28	1.72	1.49	2.65	2.64	1.09	1.77

[1] Loss.

21620—58—4

UNITED STATES LINES CO.

SS. "United States" and new passenger vessel costing $47,000,000—Estimated operating results, 5½ years of operation, June 1952 to December 1957, based on result of SS. "United States" during this period

	1952	1953	1954	1955	1956	1957	Total
Voyage revenue	$19,172,165.04	$36,871,758.84	$37,196,698.00	$39,585,878.66	$41,898,466.26	$40,520,958.00	$215,245,924.80
Voyage expense	16,974,380.20	34,079,837.06	35,390,614.00	36,777,673.34	40,491,763.96	41,594,254.00	205,308,522.56
	2,197,784.84	2,791,921.78	1,806,084.00	2,808,205.32	1,406,702.30	[1] 1,073,296.00	9,937,402.24
Operating-differential subsidy	4,381,900.00	11,396,394.12	12,400,608.00	12,530,224.00	14,089,224.00	13,261,816.00	68,060,166.12
Allocation, various income items	592,600.20	917,560.44	803,892.70	816,286.82	873,714.88	926,786.20	4,930,841.24
Total income	7,172,285.04	15,105,876.34	15,010,584.70	16,154,716.14	16,369,641.18	13,115,306.20	82,928,409.60
Lay-up expenses	431,082.00						431,082.00
General administrative expense	1,734,659.02	3,404,802.56	3,671,197.64	3,410,896.22	3,153,351.48	3,071,616.46	18,446,523.38
Advertising	954,554.70	857,118.16	1,088,534.00	381,313.54	921,434.36	918,856.00	5,121,810.76
Interest, at 3¼ percent per annum	1,020,757.93	1,938,698.85	1,856,098.00	1,689,497.20	1,629,592.57	1,544,180.44	9,678,824.99
Depreciation	1,886,892.12	3,672,500.01	3,773,413.00	3,878,228.86	3,867,759.52	3,867,759.52	20,946,553.03
Allocation, various expense items	347,061.60	673,065.18	658,071.20	633,228.00	714,256.08	683,531.42	3,709,213.48
Total expense	6,375,007.37	10,546,184.76	11,047,313.84	9,993,163.82	10,286,394.01	10,085,943.84	58,334,007.64
Net result	797,277.67	4,559,691.58	3,963,270.86	6,161,552.32	6,083,247.17	3,029,362.36	24,594,401.96
Less:							
Federal tax	414,584.39	2,273,578.66	2,060,900.85	2,972,190.00	2,923,715.16	1,578,268.42	12,220,237.48
Subsidy recapture		93,712.46		222,901.17	230,359.01		546,972.64
Net profit	382,693.28	2,192,400.46	1,902,370.01	2,966,461.15	2,929,173.00	1,454,093.94	11,827,191.84
Cost of vessel	40,983,760.00	81,967,520.00	81,967,520.00	81,967,520.00	81,967,520.00	81,967,520.00	450,821,360.00
Percent net profit to cost	0.93	2.67	2.32	3.62	3.57	1.77	2.62

[1] Loss.

Mr. ZELENKO. I think you said, sir, on your figures you could, if things went right, run this vessel at a return of about 1.77 percent profit; is that right?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. Below that figure I don't think it would be advisable or feasible, do you, General?

General FRANKLIN. No, sir. I think that is absolutely minimum.

Mr. ZELENKO. Of course, when you arrive at that figure, have you already taken into account the payment of a certain amount of income tax on the company's profits?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. Below a figure like this it would not be feasible for you to run it; would it?

General FRANKLIN. That is our opinion, Mr. Zelenko.

Mr. ZELENKO. Summing up this line of questioning and your answers, General, and asking you not only as the president of the United States Lines, in which capacity you would have a motive in wanting this ship built because it is your own company, but asking you also as a man who has had experience in the military operation of vessels during World War II and as a citizen outside of your company's own interest, do you think that the spending of the $80 million for this vessel at this time by this Government would provide not only a defense necessity but would also mitigate the cost so that it really doesn't amount to $80 million?

I don't know whether I have expressed it right, but I would like you to give me a picture from all of your experience and your capacity as a military man, as the operator of this line, and as a citizen to help me explain to my constituents briefly why this is worth $80 million.

General FRANKLIN. I think the expenditure would be fully justified, sir, from a military point of view or national defense point of view.

Mr. ZELENKO. That is the primary and controlling reason, I think, that we should all be concerned with.

General FRANKLIN. That is my opinion.

Mr. ZELENKO. Not only do we get the advantage of a defense instrument here, but we do get some monetary return to our economy, to our tax structure, and to the general well-being of the American people; is that right?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. And in a small way it enhances the prestige of the United States in other ports of the world to see a ship of this size flying the American flag; does it not?

General FRANKLIN. It certainly does.

Mr. Zelenko, I think you have covered it very ably, but in addition you have taxes and recapture that come back.

Mr. ZELENKO. I thank you so much, General.

I have no further questions.

The CHAIRMAN. Mr. Mailliard.

Mr. MAILLIARD. A couple of questions, General Franklin, occurred to me during your discussion.

In your statement, if I remember the figures, you anticipate less earnings by the new ship than your experience has been with the *United States*. Why is that?

Colonel HICKS. Depreciation on a cost of $47 million instead of $35 million and additional interest on a larger loan. That is the only difference.

Mr. MAILLIARD. In other words, the operating experience, you are assuming——

Colonel HICKS. Is identical. The only difference is you can have a larger mortgage on which you have to pay interest and your depreciation is on $47 million instead of $35 million. That is the only difference between the operation of the two ships.

Mr. MAILLIARD. The other question that has me a little confused is you made the statement in response to the questioning of the chairman that after your discussions with Maritime and receiving bids for the construction of a new ship you came to the conclusion that you could not build it under the provisions of the 1936 act.

General FRANKLIN. That is right, sir.

Mr. MAILLIARD. I would like to find out in a little more detail just exactly why, because Mr. Allen brought out that there are a great many features in this ship which are national defense. Uncle Sam picks up the check for those, doesn't he?

General FRANKLIN. Yes, sir.

Mr. MAILLIARD. Theoretically the construction subsidy should equalize your foreign cost against your United States cost. You made the statement that you thought you could build this ship abroad for the $47 million. If so, the 1936 act ought to be comprehensive enough to build it.

General FRANKLIN. Mr. Mailliard, as I told you, it is completely an estimate on my part. You might get a great deal of difference of opinion as to what price you could build this ship abroad for, but my statement—and this is very important—was that you could build a ship less the defense features, in my opinion, for about $47 million abroad.

That is a great difference.

Mr. MAILLIARD. Since Uncle Sam is picking up the defense features and the construction-differential subsidy is supposed to equalize between foreign and American costs, I don't see why the 1936 act wouldn't yield it.

Mr. ALLEN. Will you yield there?

Mr. MAILLIARD. Yes, sir.

Mr. ALLEN. Isn't there a provision in the law that the subsidy on the nondefense part of the ship may not exceed 50 percent of the cost?

General FRANKLIN. That is true; but, to go back to Mr. Mailliard's question, all I can say in answer to that is—I understand you are going to have Mr. Morse as a witness—that we were unable to come to an agreement which would result in the ship being sold to the United States Lines for $47 million, which is all the United States Lines, as I have tried to demonstrate this morning, is justified in paying for this ship.

The finding would have to be made that the defense features were such, plus the subsidy, that it would result in the sale to the United States Lines for $47 million.

We were unable to reach that conclusion with the Federal Maritime Bureau.

Mr. ALLEN. We certainly will ask Mr. Morse this question also; but, from your point of view I would like to know why you think the agreement couldn't be reached, because theoretically it should be reached if the statements that have been made so far are correct and theoretically it ought to be built under the 1936 act.

General FRANKLIN. I think you are right about that.

One feature is this: the defense features of the ship. The question of speed is the main defense feature. There is in addition the evaporator capacity, the air conditioning, et cetera.

Mr. ALLEN. Your supply plant is a feature; is it not?

General FRANKLIN. Your two enginerooms is a very good point as a defense feature, but the main defense feature is the speed. As you know, the ship did 35½ knots on her first voyage and she wasn't turning up a full number of revolutions at that time. We have been working the ship at 145 revolutions and she has averaged between lighthouses 30.7 knots. We have maintained that 28½ is all we need to make it a 2-weekly turn.

The Federal Maritime Bureau has taken the position, as I understand it—I am sure they have—that they have to base the speed on 30.7 knots, for what we call a commercial ship versus the steamship *United States*. We didn't agree with them on that. It would greatly reduce the allowance for national defense.

I did not agree with Mr. Morse on that, and I told him. Of course I have a tremendous regard for Mr. Morse and he certainly has the right to his opinion, and also the committee; but we could not come to a conclusion on these matters which would result in the ship being built and sold to us for what we thought we could pay for it, namely, $47 million.

Mr. ALLEN. Are there any other items? Is this discrepancy between 28 and 30.7 the value of that additional speed? Was that the only point?

General FRANKLIN. That is what is the most important one, much the most important. That makes a difference of a two-wheel ship and a ship with four wheels.

Mr. ALLEN. That is all.

General FRANKLIN. Mr. Chairman, if I may, there is one very brief statement that I think might be a good thing for you gentlemen to be familiar with. Somebody may bring up the question of air taking away all the business from the ships. These are the facts.

During 1956, 1,800,000 passengers were carried across the North Atlantic—1 million on ships, 800,000 by air.

Nineteen hundred and fifty-seven should be about the same or a little higher. Whereas the lift by air has greatly increased over the last few years, so has the lift by ship, although not at as high a rate.

There has been a great many voyages of both the steamships *United States* and the *America* where there were many more applications for space than we could accommodate. The airlines are more flexible; the same planes used for South America, the Caribbean, and Florida in our winter can be used to serve the Atlantic in summer.

A number of our important agents have advised us that they have to do business with our competitors because we are not able to take care of them in the busy season.

A new steamship *United States* with 2,000 berths as opposed to an *America* with 1,000 berths would materially help this situation.

I wanted to bring out that a million passengers last year is more than the ships have ever carried before. It is more than the ships have carried since the war, so the ship traffic is going up.

The CHAIRMAN. The committee will have to adjourn at 12 o'clock. We have Mr. Rivers, Mr. Pelley, and Mr. Lennon and Mr. Curtin, who have not yet had an opportunity to ask questions.

Mr. RIVERS. General Franklin, I admire your modesty because if you didn't represent the United States Lines you could make a pretty good defense case here.

General FRANKLIN. Thank you.

Mr. RIVERS. By the fact that you are so modest, and I admire it you are reluctant to say the things I would like to hear you say, and I wish you were free to do it. We are in a propaganda proposition. I was in Europe when sputnik went up. It got almost as big headlines as Little Rock. Those people read, learn, and inwardly digest propaganda. You had pretty good publicity when you broke the Blue Ribbon thing, going both ways at three-quarter speed, and that meant an awful lot to America in the eyes of the other nations.

Great Britain held it ever since I could remember. I have never traveled on a British ship. I might sometime but I shan't so long as I can ride a ship like the *United States*. I don't know what they provide and I don't know how they construct it. I don't know whether they have the ability in defense features. I don't know and I am not concerned with it.

However, I do know what is in your ship. For 17 years I have served on a military committee, the Naval Affairs, and now the Armed Services, along with my friend Mr. Miller, so I know a little something about the Navy.

I know we are building a nuclear carrier which I understand will cost over $300 million. That is a defensive proposition. I am inclined to think, knowing what the bottom of a ship is, like our nuclear ships, where you have to have a big belly on them—you could probably put this in without the bugs in it because you have the overall design to start with. Of course your center of gravity may be differently located because of the many features in that heavy capsule and so forth, but I am inclined to think that you could do that.

However, that is neither here nor there. I think this is a defensive proposition and I don't know of any company that could better operate on the east coast. I think our friend Mr. Killion could operate 2 on the west coast and not 1; I think he ought to have 2. We have over 500,000 people in Europe now, well over 350,000 military.

Mr. MILLER. Would the gentleman yield there a minute?

Mr. RIVERS. Yes.

Mr. MILLER. We would have to bring those people back immediately too.

Mr. RIVERS. That is my point. Some of them will want to come home. I know if I were over there I would want to come home. We have well over 70,000 people in Great Britain. We have the only Air Force in Great Britain. There is but one Air Force in Great Britain. That is our Air Force.

Logistically they have to be supplied, and the same thing goes on the Continent. We have well over 300,000 military people along with their dependents and God knows how many State Department people. I don't know.

In addition to that, we are trying to train every Hottentot from Tokyo and Timbuctoo how to compete with the American people under the Marshall plan or whatever you want to call it.

We could take just two countries, Yugoslavia and Poland, and maybe Mr. Nasser's country, that we have obligated ourselves to, and build this ship and save that money for 1 year under the foreign-aid proposition. Here is the thing I am coming to: Why is it that our Government officials—and I am not saying Clarence Morse or anybody—are reluctant to make a decision in behalf of the United States?

I just don't understand it. They ought to make a decision on this thing. So far as I am concerned, I have heard enough testimony.

General FRANKLIN. I am glad to hear that, sir.

Mr. RIVERS. I know the Navy put $40 million on a ship and I know what is in it. We have seen the plans. We have talked to Admiral Mumma. We talked to Adm. Earl Mills, and Ned Cochrane, and all of them whom you know, and I know what the value of this ship is to our country and merchant marine. I think it is a defensive item and we ought to build it and quit quibbling about the little over $47 million.

I am not going to give it all to you right now, but I think we ought to supply the remainder and make it a militarily designed ship with these capabilities of the military potential, with all the reinforced decks and maybe you would have to have some for helicopters. I don't know.

However, I know a military ship has to have many features, as all of these gentlemen have said more eloquently than I can. With this ship I would do like General Forrest, get there "firstest with the mostest." That is true and I think the keel of this ship should be laid down immediately because if the balloon would go up we would pay our weight in gold for a reserve seat when you can't get them. Anybody would do that. That is human nature.

I would cross a bridge with the devil to get on the other side. That is my position. I think that you need it. Then I want to say something about your line.

I have traveled on this ship three times and every place I have been in Europe you have had fine representatives in your office making friends for the the American-flag lines, and I venture the same thing happens with Mr. Killion's organization, and the American Export, and the remainder of them.

I don't question that. However, we need this ship and I have seen enough figures. I have talked with these Navy people. I don't know what their position is, but we are going to pretty soon find out. We will have them in this room and they will either say yes or no, and when we get around to the question of need, I think if the shackles were off the Navy they would recommend this thing and I wouldn't be surprised that they would recommend a nuclear. As far as I am concerned, I think you ought to have it and I think you are a qualified company to run it.

General FRANKLIN. Thank you very much, Mr. Rivers.

Mr. RIVERS. That is all, Mr. Chairman.

The CHAIRMAN. General, you are going to have to come back tomorrow morning. Circumstances make it necessary that I adjourn the committee now and tomorrow morning we will begin with Mr. Pelley and then Mr. Lennon. I hate to bother you, sir, but the counsel of course also has some questions and there might be some other questions in the morning.

The committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 11:55 a. m. the committee was adjourned, to reconvene at 10 a. m. Wednesday, February 5, 1958.)

SUPERLINER LEGISLATION

WEDNESDAY, FEBRUARY 5, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., room 219, Old House Office Building, Hon. Herbert C. Bonner, chairman of the committee, presiding.

STATEMENT OF MAJ. GEN. JOHN M. FRANKLIN, PRESIDENT, ACCOMPANIED BY RAYMOND HICKS, EXECUTIVE VICE PRESIDENT, AND C. D. GIBBONS, VICE PRESIDENT AND TREASURER, UNITED STATES LINES CO.—Resumed

The CHAIRMAN. The committee will come to order.

I would like to correct the record so that it will show that the General Accounting Office did send a report on this bill on September 4. That was the only Government agency that had reported in accordance with the original request.

This week we have received reports from the Secretary of Commerce, dated February 4, and the Navy, dated February 3.

Mr. ALLEN. I think it was stated yesterday that the Maritime Administration had not responded, but I understand from another source that no inquiry has been made of them.

The CHAIRMAN. In all probability, I made the statement too broad to include the Maritime Administration with the Department of Commerce.

Mr. ALLEN. Commerce did not respond.

The CHAIRMAN. They have a report now.

Mr. ZELENKO. Mr. Chairman, may I ask General Franklin just one more question, when the opportunity presents itself? I know you were just going to conclude with two other gentlemen, but, when the opportunity presents itself, I would like to ask him a question.

The CHAIRMAN. Oh, yes.

Mr. Pelly.

Mr. PELLY. General Franklin, I think it would be fair to say, would it not, that your testimony, in essence, yesterday posed the question as to whether or not the Government wanted to construct a sister ship to the *United States* for emergency purposes and, if so, whether they were willing to subsidize it to the tune of $80 million? Would that be a fair question?

General FRANKLIN. Yes.

Mr. PELLY. If that were true, you would be prepared to operate it?

General FRANKLIN. Oh, yes, sir.

Mr. PELLY. Did you put in the record the age of the *America*?

General FRANKLIN. I don't remember.

Mr. GIBBONS. You said it would be 20 years old in 1960.

General FRANKLIN. The answer, however, to that question, is that the ship was documented in 1940. She would be 20 years of age in 1960.

Mr. PELLY. The figures you gave for a subsidy on the operation of the steamship *United States* was six million six, was it? And, on the *America*, $4 million a year, for last year.

General FRANKLIN. The operating-differential subsidy; yes, sir.

Mr. GIBBONS. On the *United States*, $6,630,908, and on the *America* in 1957, $4,319,999.

Mr. PELLY. Could you give for the record the amount of depreciation in each case?

Mr. GIBBONS. Yes, sir. The *America* depreciation included in the statement was $596,993.83 a year, and the *United States* was $1,674,009.52.

Mr. PELLY. In essence, I would gather, then, that, if the *America* were operated after 1960, you would be relieved of a claim as against operating expenses of $596,000.

Mr. GIBBONS. That is correct, sir.

Mr. PELLY. Could you give a statement as to whether there would be benefits in operating expenses if there were a sister ship to the steamship *United States*, so that the speed of the two vessels would be approximately the same?

Would there be any benefits from the fact that both ships were sister ships, and is the *America* slower?

General FRANKLIN. Yes, sir.

Mr. PELLY. Therefore, does that slow down the schedule of the number of trips per year?

General FRANKLIN. You are exactly right, Mr. Pelly. The *America* turns in 3 weeks and the *States* turns in 2 weeks.

Mr. PELLY. In other words, there would be tremendous benefit, then, if you could have two ships operating on the same turnaround basis?

General FRANKLIN. There would be.

Mr. PELLY. That, then, should reduce the subsidy that the Federal Government would pay toward the operation of the steamship *United States*, would it not?

General FRANKLIN. No, sir. Mr. Pelly, the subsidy on all the ships is on the same basis; namely, it is an equalization of the crews' wages.

Mr. PELLY. On a yearly basis, are they?

General FRANKLIN. It is by voyage, sir.

Mr. PELLY. Will you not have more voyages?

General FRANKLIN. Yes, sir.

Mr. PELLY. Then, actually, it might increase?

General FRANKLIN. Yes, sir.

Mr. PELLY. However, the revenue would actually increase because of more voyages, and there would be more recapture, would there not?

General FRANKLIN. Yes, sir; you are exactly right; more recapture and more taxes.

Mr. PELLY. Would you give us a statement as to whether the actual recapture would exceed the amount of additional subsidy required?

Mr. GIBBONS. We are planning to file with the committee, Mr. Pelly, a statement which shows the operating results of the *United States*, and the operating results of the *United States* and a sister ship, assuming the cost of the sister ship was $47 million. I think those statements will disclose the figures that you want. I haven't quite worked it out in the detail that you ask the question, but we will furnish that information when we furnish the statements.

(The information is as follows:)

It is estimated that operation of the steamship *United States* and a sister ship (costing $47 million) would increase operating-differential subsidy payments by $2,057,130 per annum, compared with the subsidy payments on the combined operations of the steamship *United States* and the steamship *America*. However, estimated Federal income taxes and subsidy recapture would also increase by $1,381,610, which, if considered as an offset to the additional operating-differential subsidy payments, reduces the $2,057,130 increase to $675,520 per annum.

Mr. PELLY. It certainly seems very apparent that to have two ships operating on the same turnaround basis would be a very much more efficient operation than having one that runs at one speed and one at another.

General FRANKLIN. That is exactly right, Mr. Pelly.

Mr. PELLY. I think it is fair to state that the emergency or mobilization base aspects can better be covered maybe by the Navy, but I do recall in the past that we were told that there was a need for additional passenger ships.

Do you remember that testimony?

General FRANKLIN. Yes, sir; and that is the fact. I think I said yesterday that we are handicapped right now because we don't have enough space to offer the agent, and 75 percent of the business comes through agents in the heavy season.

Mr. PELLY. I think the matter came up in connection with the subject of building more passenger ships that they would be classified as a special-purpose ship and, as such, because of our need of them, you would actually get a hundred percent mortgage under the then law.

General FRANKLIN. Yes, sir.

Mr. PELLY. I think that is all. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Zelenko.

Mr. ZELENKO. Yesterday, General Franklin, you told us that before the National Defense Association you had submitted or spoken about certain statistics showing the value or the benefit to the American economy of building and operating American vessels.

Do you remember telling us that?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. With the permission of the chairman, I think it might be helpful for our hearings if we possibly could put into the record the figures and statistics that the general submitted before that association.

The CHAIRMAN. I think the statement the General referred to yesterday was directed to be put in the record.

Mr. GIBBONS. It has been distributed to you gentlemen and put in the record.

Mr. ZELENKO. Thank you.

Another question. Yesterday, I think, your figures indicated, General, that on the basis of the past 5 or 5½ years' operation of the *United States*, you figured that there would be a profit or return to your company of about 1.77 percent. Is that about right?

Mr. GIBBONS. That is on the new ship.

Mr. ZELENKO. On the new ship.

Mr. GIBBONS. Yes, sir.

Mr. ZELENKO. Of course, you base your statistics and your figures on a period in which we have had peak travel.

I would like to ask you what would happen if in the next 5 years, with a new *United States* vessel, business off by as much as 5 percent, you would not be able to get even that return on your own capital, would you?

General FRANKLIN. I think that is a correct statement, Mr. Zelenko.

Mr. ZELENKO. So that, reviewing the situation, you, being a proponent for this new vessel, and in effect for your own company, are not asking for something which would give your company a giveaway or a tremendous amount of profit.

It amounts to a calculated risk or a gamble by your company to undertake this thing; does it not?

General FRANKLIN. It certainly does, sir.

Mr. ZELENKO. The reason I asked this question was I was reading reports today in a New York newspaper of your testimony yesterday and it was headlined by the fact that you are asking the Government to give something to your company, and people might get the impression that you are asking something that would be of a tremendous profit, which is not so, is it?

General FRANKLIN. That is not so; no, sir.

Mr. ZELENKO. One more question.

Do you feel, General, even if your own company were not given the benefit of this $80 million advance, that such a ship as a new *United States* is an absolute necessity for the defense of this country and for its commerce?

General FRANKLIN. I think it is a very important defense item.

Mr. ZELENKO. And even if your own company were not to procure the benefit of any proposed legislation you would, nevertheless, go along with it?

General FRANKLIN. Yes, sir.

Mr. ZELENKO. I thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Dellay.

Mr. DELLAY. No questions.

The CHAIRMAN. Mr. Glenn?

Mr. GLENN. No, thank you.

The CHAIRMAN. The counsel for the committee has a few questions.

Mr. JOHN M. DREWRY (chief counsel). General, I would like to come back to the point which was raised by Mr. Mailliard and Mr. Allen yesterday.

Could you state for the record whether or not you tried to reach an agreement with the Federal Maritime Board to build a sister ship to the *United States* under the provisions of the 1936 act?

General FRANKLIN. We did, sir.

Mr. DREWRY. What was the result of that effort?

General FRANKLIN. We were not able to come to any agreement that was satisfactory to both parties.

If I may, Mr. Drewry, I think that is a very important question and I would like to make a brief statement on the subject.

Mr. DREWRY. All right, sir.

General FRANKLIN. It is. The steamship *United States* cost approximately $80 million. The national defense allowance was approximately $25 million.

After the construction differential subsidy the ship was sold to the United States Lines for $31 million. That was considered to be the foreign price of the ship, of course, less national defense features.

It is perfectly true that that sale was criticized by the Comptroller General and the United States Lines was forced to put up $4 million more, although we had a firm contract.

Our only alternative would have been to have gone into a lawsuit with the Government, which we, of course, wanted to avoid.

If the Federal Maritime Administration made the same finding as regards this new ship we are discussing in connection with the national defense and used the same percentage that was used of national defense features as against the overall cost of the ship, it would result in approximately $44 million as a national defense item.

If 45 percent construction differential subsidy was used the ship could be sold to the United States Lines for $47 million. The proper amount of the national defense is a matter of opinion.

All the facts are gotten together by the Federal Maritime Administration in a very conscientious way and then it is decided what in their best judgment they can allow as national defense.

In this case the Federal Maritime Administration was unable to find that amount of national defense allowance in this new ship; namely, $44 million.

We have no quarrel with their views. It is a matter of opinion.

Therefore, if a sister ship to the *United States*, the kind of ship we are discussing here and the kind of ship that we think is vital, or certainly tremendously important for national defense, is to be built and sold to the United States Lines for $47 million, which in my opinion is all the United States Lines Co. could afford to pay for it, it will have to be through the medium of this bill that is before us, and I certainly hope the bill can be passed.

Mr. DREWRY. You have stated that the $47 million is the economic breaking point which you have determined on the basis of comparison with the operation of the *United States* and, therefore, you feel that you cannot go any higher than $47 million.

Would it be fair to interpret your remarks to mean that as far as this bill and the fixed price, the $47 million, are concerned, you want to avoid difficulties of the nature that you encountered the last time by having the issue resolved right now?

General FRANKLIN. Yes, sir.

Mr. DREWRY. I wonder if you could tell us, and if you would tell us, wherein this discussion of the matters of opinion you and the Maritime Board differ as to what constitutes national defense features?

General FRANKLIN. Mr. Drewry, there are several items, but I would think that the main difference of opinion and the one that represents the largest amount of money is the question of speed.

Mr. DREWRY. When you spoke yesterday about being able to build this ship or a sister ship to the *United States*—I forget exactly your words—for $47 million elsewhere, abroad, were you thinking in terms of, say, a 28½-knot ship, a 26½-knot ship, or a 30½-knot ship?

General FRANKLIN. I was thinking in terms of the ship that Gibbs & Cox designed, roughly, it is true, and got a bid from Newport News on such ship, which was a ship that could turn in 2 weeks.

The ship was a ship that could average 28½ knots, which meant she could steam top 30 knots and had 2 wheels, a twin-screw ship.

It was determined in the case of the negotiations which resulted in the building of the Steamship *United States* that such a ship was what they call the usual ship and such a ship could be built foreign, as I remember the figure, for about $28 million.

It is that ship I was talking about when Mr. Mailliard asked me yesterday if a ship could be built for $47 million abroad.

I think that ship could be built for $47 million abroad, but I can't prove that and I don't think anybody else can.

Mr. DREWRY. Then a 4-wheel ship cruising at 30½ knots would cost more than a 2-wheel ship cruising at 28½ knots with a top of 30 knots?

General FRANKLIN. Yes, sir; of course she would.

Mr. DREWRY. Would it be substantial?

General FRANKLIN. The overhead on the ship is much greater, as was brought out yesterday, the steamship *United States* has two engine rooms so she could take a torpedo in one engineroom and still steam away at 30 knots.

Mr. DREWRY. What about the construction cost?

General FRANKLIN. The construction cost of the four-wheel ship is a good deal higher.

Mr. DREWRY. You have qualified your statement to the extent of showing that you were thinking in terms of a 28½ knot ship with 2 wheels yesterday?

General FRANKLIN. Yes, sir. Maybe I answered the question badly yesterday, but what I think I said was that a ship could be built abroad with the same hull lines and the same passenger capacity of the *United States* without the national defense features, and the additional speed is certainly the main national defense feature.

Mr. DREWRY. One of the things in my thinking in asking this particular question is, I have heard it said that no one would build a supership of this sort anywhere in the world solely as an economic venture with an expected profit return without Government aid, irrespective of the question of national defense features.

We have as examples perhaps—and I do not know—the *Queens*, the new French ship, the big Italian ships, and I wonder if you have any comment on that, knowing the background of the transatlantic passenger service as you do.

General FRANKLIN. Let us discuss the *Queens* first.

The British, of course, are a great seafaring nation and they lay great store by their prestige at sea. The Cunard Line had to have Government aid. They keep those things very quiet in England, but

they had to have Government aid, I know, to finish the *Queen Mary* and to start the *Elizabeth*.

Whether or not they have paid off the aid now, or not, I do not know, but there isn't the slightest doubt in my mind they would not have gone to those big, fast ships had not both the *Bremen* and the *Rex* and the *Normandy* taken the blue ribbon away from the British; that is, the ribbon that they are supposed to give for the fastest transatlantic voyage.

There isn't the slightest doubt in my mind that the British went ahead with those big, fast ships to some extent because of prestige and to a lesser degree, or to a degree, because they earned dollars and paid off in pounds.

Mr. DREWRY. What about the French?

General FRANKLIN. I think the same is true with the French. In connection with their new ship——

Mr. DREWRY. From your observation would you feel that that prestige factor, or maybe sputnik factor, has a value, an intangible value, perhaps, but nevertheless a substantial tangible value, to the United States?

General FRANKLIN. I do. I do not mind saying that when I discussed this matter with the board of directors of the United States Lines, who are patriotic Americans, they authorized me to come down here and make this commitment and certainly nobody can say that in light of the figures on the steamship *United States* they are doing it to make money, because we would receive that same money in something that would look like it could give us a better return. Although we have no obligation to replace the *America*, I think the United States Lines has a duty to come up with a new big ship if we can.

Mr. DREWRY. Just one more question.

The committee has asked Mr. William Francis Gibbs to appear to advise us on the technological aspects of the ship, and perhaps he will go into it in more detail, but I would like to bring up this point to you:

Yesterday the question of the application of atomic energy was discussed to some extent and bearing in mind that the steamship *United States* was designed 10 years ago, would you comment on its desirability?

General FRANKLIN. The engineering on the steamship *United States* was finished in 1949.

Mr. DREWRY. We are interested in seeing that the merchant marine be kept just as far in advance as it possibly can be.

In addition to the question of atomic power were there contemplated in the replacement ship improvements of any kind based on lessons that have been learned with the *United States* from experience or new concepts which have developed in the meantime, or is it going to be just a Chinese copy of the present ship?

General FRANKLIN. I would think the answer to that, Mr. Drewry, is that there are no fundamental changes. I don't know how much of it was brilliance or how much of it was luck, but the hull lines of the steamship *United States* look like they are very good the way she goes through weather.

That ship can go into force 4 wind at 30 knots. I am not in favor of changing her hull lines.

Mr. DREWRY. You said no fundamental changes. Are there other changes or advances?

For instance, have there been experiences with passenger demands that result in some modifications?

General FRANKLIN. Yes, sir; but they are minor. We have a lot of trouble with that silly little restaurant. I wish we had never put it on. I think we have to put a larger restaurant on the ship.

I think maybe there should be more soundproofing, particularly in first-class, between staterooms.

I am inclined to think it would be a good thing to put these antirolling fins on the ship because all the new ships seem to have them.

I think the ship has a very good sea roll, but I do think it would be a good thing to put these antirolling fins on it, as a stabilizer.

They put them on the *Elizabeth*.

Mr. DREWRY. Therefore, there are no fundamental changes believed to be necessary?

General FRANKLIN. I don't think so.

Mr. DREWRY. In various other categories you are contemplating sufficient changes to meet, say, recent developments in travel habits, or things such as stabilizers. While they are but minor, you are thinking ahead? That is my point.

General FRANKLIN. Yes, sir. I remember Admiral Mumma, Chief of the Bureau of Ships, testified right here that the Navy couldn't come up with any fundamental improvement in hull lines or machinery. You will have to ask Mr. Gibbs this question, but I am quite sure that if he could have come up with some fundamental improvement he would have so advised us.

We also have, of course, considered the fact that there is considerable money to be saved because we can use a lot of the building plans that were used in connection with the *United States*.

Mr. DREWRY. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. General Franklin, in connection with the construction differential subsidy, I think there is considerable misunderstanding and misconception about it.

Fundamentally, the construction subsidy is not primarily for the purpose of assisting the ship operator, but it is primarily to make sure that we have American shipyards; is that not true?

General FRANKLIN. Of course, Mr. Tollefson, you know more about this than I do, but there are two subsidies: (1) the construction differential subsidy, and if you didn't have the construction differential subsidy in my opinion there would be no passenger or cargo ships built in American yards.

There might be some tankers, but there wouldn't be any passenger or cargo ships in American yards.

Mr. TOLLEFSON. Under the law you are compelled to build your ships in American yards, are you not?

General FRANKLIN. That is right, sir.

Mr. TOLLEFSON. World War I and World War II pointed up the absolute necessity of having available shipbuilding facilities and shipbuilding skills in the event of any future major emergency and the construction subsidy was designed primarily to provide work for American shipyards so that they might be in being in the event of an emergency.

That money does not go in your pocket?

General FRANKLIN. No, sir; you are exactly right.

Mr. TOLLEFSON. The same is true of the operating subsidy. It does not go in your pocket?

General FRANKLIN. No, neither one.

Mr. TOLLEFSON. You could not hire foreign crews under the law?

General FRANKLIN. No, sir.

Mr. TOLLEFSON. You have to hire an American crew and in order for you to compete with foreign ships you could not afford to pay that wage differential out of your own pocket, could you?

General FRANKLIN. We couldn't possibly.

Mr. TOLLEFSON. It is about four times as high as the foreign operating costs?

General FRANKLIN. That is just about right, yes, Mr. Tollefson, and you are talking now about the British scale, which is the highest other than ours.

The Japanese scale is way under that.

Mr. TOLLEFSON. I wanted primarily for the record to show that the construction differential subsidy was for a specific purpose envisioned by Congress when it passed the 1936 act.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Curtin.

Mr. CURTIN. No questions, sir.

The CHAIRMAN. Mr. Garmatz.

Mr. GARMATZ. General, you spoke before about meeting with the Maritime Board and some of your differences with it. You only mentioned one and that was with reference to speed.

Would you want to elaborate on some of the differences between you and the Maritime Board? Could you go a little more into detail, or are they somewhat of a confidential nature?

General FRANKLIN. No, sir; there is nothing confidential about it at all, Mr. Garmatz. I don't think we had this with the Maritime Administration, but I remember we had a discussion about it with the General Accounting Office, and that may have been in the minds of some of the Maritime people, and that is the air conditioning right through the ship.

Mr. GARMATZ. This legislation may help to solve some of those problems.

General FRANKLIN. Solve them all.

Mr. GARMATZ. In adding them to this particular bill?

General FRANKLIN. Yes, sir; solve them all. That is why I think the bill is excellent, bringing it into the bill. I hope it passes.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. General, yesterday when we were talking about the necessity for these ships in the merchant marine we touched on the fact that there are in excess of 200,000 American dependents of servicemen in Europe now. If that emergency came up it would be necessary to repatriate them as quickly as possible because as long as they are over there we would have to transport food and the necessary supplies to take care of 200,000 people and, Lord knows, we would have a hard enough time transporting things that go to make for war.

How big a job would it be to get those 200,000 people back to this country if we do not have additional shipping?

If we had to depend on the shipping today to get them back here, would it pose a big problem and a burden on American shipping?

General FRANKLIN. It would certainly pose a big problem and American ships would be essential because presumably the foreign-flag ships would be in use carrying troops or carrying supplies for troops.

I would like to tell you a brief story, which will only take a minute, that bears out how important it is to have a ship or ships in being to repatriate Americans in case of a war.

I was sent for by Mr. Davies, who was Under Secretary of State, in 1940, to come down here when you had the neutrality bill. I walked into his office and it was full of admirals and generals.

Mr. Davies says to me, "Mr. Franklin, we want you to send the *Washington* to Bordeaux, Lisbon, and Galway and bring home 1,800 stranded Americans who are short of money, short of food, and have to be brought home. How soon can you get the ship to sea?"

I said, "Well, can I use that phone?"

I picked up the phone and I got McCarthy, who was vice president in charge of operations, in New York. I said, "Mack, how soon can you assign a crew on the *Washington*, store the ship to go east light, and come home with 1,800 from Europe, and fuel it?"

He says, "About 48 hours."

I said, "Go ahead and start it."

The next day an admiral came into our office and sat down with the master and told him the course, and told him how the ship was to be lit up, and so on. Although they never told me, no doubt they had an arrangement with the Germans, of course.

I said to Mr. Davies, "Well, Mr. Davies, there is a law on the books that you can't order an American ship into the war zone."

He said, "Pay no attention to that. Mr. Hull is going to write you a letter. President Roosevelt is going to write you a letter and tell you to do it."

I said, "Yes, sir."

I called our lawyer in New York and asked him to meet me when I got to New York and I said, "What about this?"

"Why," he says, "it is a $50,000 fine and 2 years in jail for anybody who orders an American ship into the war zone."

I said, "I am going to get a letter from President Roosevelt and Mr. Hull."

He says, "That won't help you one iota."

I says, "What am I going to do?"

He says, "Sail the ship."

The ship was in Bordeaux a week after I talked to Mr. Davies. There is a very good example, and those people needed help desperately.

Mr. MILLER. However, you were dealing with 1,800 people there and today we would have to deal with roughly 200,000 people to bring back from Europe, a problem that has never confronted us before in this field, and it poses a big one and would be a great burden at a time when all types of shipping would be in high demand; is that not true?

General FRANKLIN. That is exactly right, sir.

Mr. MILLER. You know the hue and cry that would go up in this country, in the event an emergency broke out, and we are not going

to have the warning of a neutral zone. We are not going to be neutral as we were in those days.

If the next war is going to come then we are going to have to do all of this thing under a cloud of war and during a period of stress, and all the shipping would be fully utilized and all the shipping of our allies.

We would still have 200,000 Americans to bring back from Europe and a lesser number from the Orient, and with our present capability you would be very hard put unless we give you new ships; is that correct?

General FRANKLIN. That is absolutely correct.

I would hope we don't get into another, but it is for sure if another war happens we will be as short of ships as we have been in two of them.

Mr. MILLER. I think so, too.

On the other hand, I do not think we should take a chance on leaving 200,000 people in Europe for the want of spending a few million dollars to get some ships into the water.

General FRANKLIN. Yes, sir.

Mr. PELLY. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, sir.

Mr. PELLY. Yesterday, General Franklin, Mr. Milliard said he could not understand why this ship could not be constructed under the Merchant Marine Act without this special legislation. Maybe you can clarify this for me, because I find that by the taking of a few figures and trying to put them together it seems to come up with the answer that you could.

You stated that the cost was $126 million. Then in turn the defense features, did you say, were agreed upon as $44 million?

General FRANKLIN. No, sir. I said this: That if you use the same percentage of national defense allowance that was used in the case of the steamship *United States*, it would amount to $44 million and then if you use a 45-percent construction differential subsidy it would result in the ship being sold to the United States Lines for $47 million, which on that calculation would mean that the foreign price of the ship was $47 million.

I said a few minutes ago that the question of the national defense allowance was a matter that had to be determined by the proper people in the Federal Maritime Board and also the construction differential subsidy had to be determined.

It is not an exact science. People can have their views. The Federal Maritime Board have not agreed that they can find $44 million in national defense features in this ship.

Consequently, they very properly won't allow it and that is the reason it couldn't be built under the 1936 act, and that is the reason why I am so anxous to see this bill passed.

In addition, as you will remember, the national defense allowance of $25 million in the case of the steamship *United States* was criticized by the Comptroller General and we had to eventually, although we had a contract, pay $4 million more or get into a long-drawn-out lawsuit, and we didn't want to do that, with the Government.

I don't think Mr. Mailliard was here when I put this statement in this morning, but you asked about the $47 million; could the ship be built abroad?

Nobody knows until you try to get a bid, but the ship I am talking about, which is the ship that could be used for comparison, is the ship with the same hull lines, about the same capacity, with two wheels, and about 100,000 horsepower as against a great deal more horsepower in the ship we are talking about.

Mr. PELLY. If the cost were $128 million and if the Maritime would agree with you that the defense features amounted to $34 million, and that was deducted from $128, it would leave the cost of the ship at $94 million, the way I figure, and if the construction subsidy differential were 50 percent—it normally is, as I understand it—it would bring it down to your figures of $47 million.

General FRANKLIN. Yes, sir; but they haven't used 50 percent. I think the later percentage has been 45 percent, but your statement is correct.

Mr. PELLY. Your figures are pretty close to the Merchant Marine Act, as I understand it, and it just makes you wonder by the time you get legislation through whether it will not be easier to negotiate and get it through on the regular basis without special legislation, because it seems to me your figures are very, very close.

General FRANKLIN. All I can say to you, sir, is we could not come to an agreement.

Mr. PELLY. When Mr. Morse is on the stand we will ask him a few questions.

Thank you, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

Thank you very much, General.

General FRANKLIN. Thank you, sir, for your courtesy.

The CHAIRMAN. If further development of your testimony is found necessary you would be available to come back later on?

General FRANKLIN. Yes, sir. Of course, I am so interested in this I will come back any time you gentlemen tell me.

There is no question about that. We will have Colonel Hicks, or Mr. Gibbons, or somebody from our organization attending each day.

I will, of course, read all the testimony.

The CHAIRMAN. Thank you, sir, very much.

General FRANKLIN. Thank you, sir.

The CHAIRMAN. The next witness scheduled is Mr. George Killion, president of the American President Lines.

Due to Mr. Killion's unfortunate illness he cannot be present today, which the committee greatly regrets and hopes he soon will be thoroughly recovered.

Mr. Killion will be represented by Col. Noah Brinson, vice president of the American President Lines, accompaniesd by Mr. Arthur B. Pool, vice president and treasurer, and Mr. George T. Paine, vice president (engineering), American President Lines.

STATEMENT OF COL. NOAH M. BRINSON, VICE PRESIDENT, AMERICAN PRESIDENT LINES; ACCOMPANIED BY ARTHUR B. POOLE, VICE PRESIDENT AND TREASURER; AND GEORGE T. PAINE, VICE PRESIDENT (ENGINEERING)

Colonel BRINSON. I would also like to introduce Mr. Warner W. Gardner, our Washington counsel.

The CHAIRMAN. Do you desire Mr. Gardner to sit with you, sir?

Colonel BRINSON. Yes.

The CHAIRMAN. Mr. Gardner may have a seat right there at the witness table.

Colonel BRINSON. Mr. Killion asked me to extend his sincere regrets and disappointment to the chairman of the committee that he could not be here at this very important hearing and asked me to read the statement and, with Mr. Poole and Mr. Paine and Mr. Gardner, be available for any questions.

The CHAIRMAN. You may proceed.

Colonel BRINSON. This is Mr. Killion's statement, sir, which I have the pleasure of reading.

I am grateful for the opportunity to discuss with you our problems with respect to the proposed transpacific passenger liner to be built by American President Lines.

Those problems underlie the bills which are before this committee for consideration: H. R. 9432, H. R. 9457, H. R. 9474, and H. R. 9477, relating to the transpacific liner, as well as the somewhat similar bills H. R. 9342 and H. R. 9437, relating to the transatlantic liner.

I have with me today Mr. Arthur B. Poole, vice president and treasurer, Mr. George T. Paine, vice president in charge of engineering, and Mr. Noah M. Brinson, vice president in charge of the Washington office, of American President Lines. They will be able to discuss, to the extent the committee deems desirable, the more technical aspects of our financial, engineering, and policy problems.

American President Lines has asked for no special assistance on the very sizable vessel replacement program which it has carried forward in the 5 years since it was acquired by private owners.

That program is the most extensive which has yet been accomplished by any United States operator in the postwar period. It has resulted in the purchase from the United States of the passenger vessels *President Cleveland* and *President Wilson* in 1954 and of the passenger vessel *President Hoover* in 1957; we have made extensive improvements and conversions of all these vessels. We have purchased 8 Mariner-type freighters, in 1955 and 1957; 4 of these have been very extensively converted into the finest freighters afloat today, and the other 4 will be converted this year. We expect soon to enter into a contract for the construction of 2 improved Mariner-type vessels. The total cost to American President Lines of these 13 vessels, with improvements, is about $83 million.

I hope, therefore, that you will understand that, when American President Lines comes before you to say that it needs a small measure of assistance on its transpacific liner, it is because that assistance is in fact needed.

I believe our record over the past 5 years is eloquent evidence that American President Lines is prepared out of its own resources to do all that it can to rebuild and improve the Nation's merchant fleet.

Our problem with the transpacific liner is, in brief, that it will be so expensive to build that its operation will show a loss if built under the prevailing policy of requiring private financing of construction.

We propose to the Congress that the vessel be built by the United States and sold to American President Lines as provided by section 502 (c) of the Merchant Marine Act, 1936, with 75 percent of its cost to be financed by the Government at the statutory interest rate of 3½ percent.

A. THE NEED FOR THE VESSEL

There is no issue as to the very large need for this superline in the Pacific. American President Lines, the Federal Maritime Board and the defense and budgetary officials of the Government stand so far as I have been advised in complete agreement. Yet it may be helpful to the committee if I were summarily to indicate the background of the transpacific passenger service and the compelling reasons for an early start on the new vessel.

1. THE PRESENT SERVICE

American President Lines and its predecessors have been operating a transpacific passenger service for 90 years.

Prior to World War II, the company built and placed into service two large luxury liners, the steamship *President Coolidge* and the steamship *President Hoover*.

Each was 22,000 gross tons, and was for that day an outstanding example of American naval architecture. Both were casualties during the war.

Just before the end of the war, two P–2 type transports of 19½ knots speed and 15,000 gross tons (about three-fourths the size of the *Presidents Coolidge* and *Hoover*) had been altered during construction to serve as interim vessels for transpacific passenger use. The two interim P–2 transports, now the *Presidents Cleveland* and *Wilson*, remain the backbone of American-flag passenger service between California and the Orient.

The *President Hoover*, formerly the steamship *Panama*, was added to our fleet a year ago. It is small, relatively slow, and is already 18 years old. Its function is to serve as a temporary addition to our passenger fleet until the new liner can be built.

There is no important passenger tonnage serving the Orient aside from our three ships. In the transpacific trade, there is, accordingly, not one passenger vessel specifically designed and recently constructed for this trade.

In other areas of the world, larger vessels of superior characteristics have been placed in service since the war by many countries, including our own.

In North Atlantic service alone there are more than 80 passenger ships currently employed, and more are under construction.

2. SOMEONE WILL BUILD

While, as I stated, our three ships are presently the only important passenger tonnage serving the Orient, this by no means constitutes an assured future for American President Lines.

In each of the last 5 years there has been before the Japanese Parliament a proposal to build one or more Japanese passenger liners which would be faster and larger than our present ships. Within the last 5 days there has come an announcement from the British of a major expansion of passenger services in the Pacific.

Sir Donald Anderson, deputy chairman and managing director of the Peninsular & Oriental Steam Navigation Co., announced in New York the creation of the Orient & Pacific Lines, in his own words, "to be the largest commercial shipping operation in the Pacific."

This will be an expansion of the former Orient Line which has operated between North America, New Zealand, and Australia into the transpacific trade to Japan, Hong Kong and the Philippines.

It will result in the introduction of three additional ships, including the 30,000-ton *Arcadia*, larger than any ship now in service in the Pacific, and two new ships, one of 45,000 tons and one of 40,000 tons, now being constructed at a cost of $85 million.

These two new ships are scheduled to be added to the Orient & Pacific Lines fleet at the end of 1960. The ports of call of the new Orient & Pacific Lines will include San Francisco, Vancouver, Honolulu, Yokohama, Kobe, Manila, and Hong Kong, as well as the present calls of Suva, Auckland, and Sydney.

I am somewhat tempted to adopt part of Sir Donald Anderson's announcement, without change, as part of my testimony. His statement, which pertains to our present problem, was:

> This investment is being made because of the growing importance of the Pacific area in world commerce and the increasing recognition everywhere of the Pacific world as one of the most fascinating and satisfying tourist experiences to be found on the globe.

It needs little elaboration of these plans to emphasize that the United States stands in serious danger of losing its position of merchant marine leadership in the Pacific.

3. THE NEEDS OF THE TRADE

The proposal before you is to authorize construction of a large, fast, modern, 3-class "superliner" which would be specifically designed for this service. This vessel would enable American President Lines to carry approximately 22,000 additional transpacific passengers per year. It would give America a blue-ribbon liner for the Pacific to match the prestige of the steamship *United States* in the Atlantic, and it would add an important unit to our national-defense system.

We are convinced there will be sufficient demand to justify the construction of this superliner. Predicting the volume of passenger traffic to and from the Orient has been a major research project of American President Lines.

This matter has also been under close study by the airlines and by the Japanese Government.

All predictions for future transpacific travel are that there will be a very large increase. In 1951, passenger traffic in the Pacific totaled 49,090. The 1955 total of 91,510 almost doubled the 1951 figure.

By 1956, total traffic had increased to 110,768.

The estimate for 1961, the year our new superliner would be introduced, was that there will be at least 150,000 passengers. Current data indicate that this figure may be ultraconservative.

All predictions, including those of the airlines, are that ocean liners will continue to get a substantial share of all passenger business. Not everyone is in a hurry; and the rest and relaxation found in travel on a luxury liner can often be as important as reaching the destination.

The airlines, too, now recognize this, and work with surface carriers in promoting sea/air combination tours which, in the aggregate, mean more travel business for both. Our own estimate is that in the period under question surface vessels will attract about 40 percent of all traffic, if accommodations at the proper price levels are available.

4. THE SHIP

American President Lines has made feasibility studies of 6 vessels in 2 sizes and 6 speeds, from 23 to 28¼ knots.

Only two speeds proved economically feasible. The speed can be no lower than 23 knots, for that is the lower limit we believe to be planned by the Japanese. It can be no higher than 26 knots under normal conditions of operation for reasons of cost and fuel consumption. (For defense purposes, a speed of 28 knots plus will be the reserve capacity of the 26-knot ship.)

After much study, American President Lines engineers have concluded that the most suitable vessel is one of 26 knots, designed to carry 1,450 passengers, 908 feet in length, and of 43,000 gross tons burden. This ship will be the fourth or fifth largest vessel afloat.

It has been designed by one of the world's outstanding naval architects, Mr. William Francis Gibbs, designer of the steamship *United States*.

This ship will provide accommodations, in all three classes, that are comparable in every way to the finest passenger liners in the world today, and far beyond anything offered in Pacific Ocean service. The building of such a superliner achieves two important results beyond that of providing needed additional passenger space.

Intrinsically, by its size, speed, reputation, and glamour, it builds interest and increases traffic. And in foreign ports, it symbolizes American leadership and the preeminence of American merchant shipping.

5. NATIONAL DEFENSE

We should not expect that any will question the value and importance of the proposed vessel to our Nation's security.

This 1,450 passenger, 26-knot superliner would have a troop lift capacity of about 10,000 men. The significance of this capacity becomes clear when it is realized that there are presently in the Pacific and available for emergency troop lift use only 10 passenger ships

with a present total passenger capacity of less than 4,200, an average age of 15 years, and a designed speed in no case of over 20½ knots.

In previous wars, America has had time to build and arm ships after hostilities began. In any future conflict, this time margin will not be available. In an ocean basin flanked on one side from the Bering Straits to Vietnam by a solid Communist bloc, this proposed vessel, built and operating, would seem to be a most important addition to our defense mechanism.

The congressional declaration of policy in the Merchant Marine Act of 1936 has not since been improved upon for a summary of the defense importance of an American merchant marine. It states—

> it is necessary for the national defense * * * that the United States shall have a merchant marine * * * capable of serving as a naval and military auxiliary in time of war or national emergency.

Every President and every principal military leader in the past two decades has at one time or another publicly called attention to the essentiality of a strong merchant marine for national defense needs.

The Merchant Marine Act of 1936 "authorized and directed" the Maritime Commission (now the Maritime Administration) to study and cooperate with vessel owners in devising means by which—

> there may be constructed by or with the aid of the United States express-liner vessels comparable with those of other nations, especially with a view to their use in national emergency.

6. TERMINALS

It is of course necessary to make extensive improvement of shore facilities to accommodate a superliner in the Pacific.

Necessary alterations or improvements to American President Lines' terminals both here and abroad have been determined and have been started. The city of Los Angeles has agreed to build the largest and finest ship terminal in the world to accommodate this new ship.

The San Francisco Port Authority has begun the engineering necessary for the installation of a brandnew passenger terminal at the company's facilities in San Francisco. Discussions have already been held with port authorities in Hawaii and the Orient.

B. NUCLEAR POWER

We are in an age of mechanical revolution, and each of you will be wondering why American President Lines should make so heavy an investment in a conventionally powered ship at a time when nuclear power seems likely to transform beyond recognition the engines of the ocean liner.

We have devoted a great deal of thought and study to this problem, and have invested considerable sums of money in research and training of our personnel against the day when nuclear reactors will power the vessels of the world. You may be interested in our conclusions.

It is our estimate that a nuclear powered vessel of the same size and speed would cost about $110 million to build, or something more than 50 percent more than the conventional liner. Operating and insurance costs would be $100,000 a voyage, or $1,100,000 a year, more. It is evident that abnormally heavy subsidy would be necessary either to build or to operate the vessel.

We are, moreover, in just that stage of development when it is certain that the nuclear engine would be obsolete by the time the keel was laid, I am told, indeed, that it doubtful that the pressurized water systems now in use will be built at all a few years from now.

The controlling feature is, however, the immoderate financial risk which is involved for the operator in use of nuclear power for passenger vessels.

Approximately half of the assets of American President Lines would be represented by this vessel and its mortgages. For some passengers, a nuclear engineroom would, at this stage of our habituation to such power, be an effective deterrent to ocean travel.

This forced us to the conclusion that American President Lines would be glad to help plan and to operate a nuclear powered liner but cannot reasonably be expected to commit the bulk of its resources to a powerplant which in terms of attracting the indispensable passengers would be so perilous.

C. THE ECONOMIC FEASIBILITY OF THE VESSEL

American President Lines, therefore, has based its economic studies upon a conventially powered vessel. Those studies have forced us to the conclusion that we cannot finance this passenger liner on the same terms as our freighters. Here is the arithmetic (the details of which is shown in appendix D on p. 110).

1. VOYAGE PROFIT

The gravity of the financing problem can be mostly clearly seen if we develop the purely operating results of one voyage of the vessel without consideration for the purchase price and financing costs.

On this basis, before overhead, depreciation, interest, taxes and subsidies, the accounts for a single voyage would indicate earnings of about $53,000.

This $53,000 would be earned out of gross revenue of $1,292,200 for the round trip and clearly is a very narrow operating margin—about 4 percent of gross revenue.

With this as the base, deducting overhead at 10 percent of gross revenue ($129,200 per voyage), and adding the operating-differential subsidy which is paid under the Merchant Marine Act to equalize the difference between the cost of operating under the American flag as against operating under competing lower cost foreign flags, the net revenue from a single voyage, again without consideration of depreciation, interest, and taxes, becomes $321,200.

May I note at this point that almost all of the operating-differential subsidy represents added wages which go to American labor.

The ship can make 11 voyages per year between the Pacific coast and the Far East. Thus, before any considerations of cost and financing, the voyages would result in revenue of $3,533,200 per year.

So that these figures will not create any falsely rosy picture, let me summarize here the effect on them of depreciation, interest, and taxes. If the vessel is financed privately, the first year's voyage net revenue of over $3 million becomes a loss of $406,900 when financing costs are applied.

If the ship is financed under the Merchant Marine Act, section 502, the figure changes to a net profit for the first year of $182,700, after financing costs and taxes, which represents an annual return of 1.5 percent on the company's investment at that time.

2. CAPITAL CHARGES UNDER PRIVATE FINANCING

I come now to the disheartening part of the calculation.

To explain it, I should probably remind you of the construction procedure set up under the Merchant Marine Act of 1936.

A construction-differential subsidy is paid as a benefit to American labor and as a means of maintaining a skilled shipbuilding industry capable of serving national needs in time of emergency.

It is designed to offset the added cost of United States construction and bring the price to the operator down to what the vessel would cost if built in a foreign yard. This subsidy presently cannot exceed 50 percent of the United States cost.

Until a few years ago, the Federal Maritime Board and its predecessors acted under section 502 of the act, where the Government builds the vessel and sells it to the operator for a downpayment of 25 percent of its cost after deducting the construction subsidy, and takes 20-year mortgages at 3½ percent interest for the balance.

What we ask here is, essentially, simply a return to that method of financing under the act.

The alternative method of financing is to proceed under section 504 of the act. There the operator builds the vessel, pays 25 percent down and finances the balance by private loans which are fully insured under title XI of the act. This method we have used for the construction of our two new freighters.

The difference in financing between sections 502 and 504 is narrow, but we have found it critical to the feasibility of this vessel.

We have had to pay 5 percent interest, plus one-half percent insurance premium, in financing the 2 freighters for which we are just about to contract. There are indications that the interest rate is about to decline. However, responsible financial authority advises us that the size of this loan, the length of its term, and the nature of the passenger business all combine to make it highly doubtful that a lower rate is likely to be available in this instance. We are forced, therefore, to anticipate a 5½ percent charge for privately borrowed money on the new liner.

We estimate the cost of the vessel at $73 million of which American President Lines (with an estimated 43 percent construction-differential subsidy rate) would pay $43,843,000 including 5½ percent interest during construction with private financing.

This results in annual depreciation of $1,989,250 and interest cost (5½ percent on borrowings, plus amortization of construction interest) of $1,950,900 in the first year.

These two items exceed the net income after subsidy and produce a loss of $406,900 in that first year. The interest payments would decline each year and in the average year of the vessel's life it would show a profit after taxes of $224,000.

This is only 1.8 percent on the original equity investment.

Even worse, it would be 5 years before diminishing interest payments brought us to the break-even point. A 20-year financial result

which ranges from a loss in the earlier years to profits in the later years and averages $224,000 is a quite different financial prospect for a lending institution than one which has actually earned even this amount in each year. Two aspects of this are important:

A. The losses in the earlier years are not calculated to encourage a lending institution as to the value of its investment, and

B. A net profit in the early years, however small, has some additional value as invested capital in later years.

I doubt that any prudent businessman would approve so heavy an investment, or a lending institution would make loans so large as these, if the result could be only 5 years of losses, to be followed by returns which even after 20 years would average only about 2 percent on the original equity investment.

3. ONLY MODEST RELIEF IS NECESSARY

Yet the committee will note that our pro forma estimates do not fall greatly below what would be required for a feasible venture.

Our ship is almost a commercial venture. Not a great deal more is needed.

The committee has before it two approaches to solution of this problem of nearly feasible passenger ship operation.

One is that followed in H. R. 9342 and H. R. 9437, relating to the United States Line vessel. It proposes the sale of the completed liner to the United States Line for a fixed price of $47 million, with terms and conditions as provided in sections 502 (c) and 503 of the 1936 act.

A similar approach to the transpacific liner would indicate a sale price of about $27,300,000.

We do not, of course, oppose this approach and would consider its application to the transpacific liner as effectively solving the problem. Yet we do not feel that it is impossible to build our liner with smaller assistance, and have accordingly proposed much more modest relief—simply the return to the type of financing contemplated by section 502 of the act.

4. RESULTS WITH FINANCING UNDER THE MERCHANT MARINE ACT

The financing provided in section 502 (c) of the 1936 act, offering 3½ percent interest instead of 5½ percent interest during construction brings the cost of the vessel to American President Lines down to an estimated $43,031,000.

It also results in a gain to the Federal Government of more than $6 million, as I will outline later. Annual depreciation becomes $1,989,250, and first year interest costs (mortgage interest, plus amortization of construction interest) $1,163,300.

These two items, deducted from voyage profit after overhead and subsidy, leave a small net income of $380,600, which is reduced to $182,700 after taxes.

This is only 1.5 percent on the company's original equity investment. In the average year of the vessel's life, the interest costs (mortgage interest, plus amortization of construction interest) would be $518,800 a year less, increasing net income after taxes to $431,700. This is only 3.7 percent on the original equity investment.

A 20-year financial result which ranges from insignificant profits in earlier years to modest profits in later years and brings about an

average annual result of 3.7 percent on the original equity investment is again a different financial prospect than one which has actually earned this amount in each year.

The amount by which the average net profit was not earned in the earlier years is not available to serve as invested capital in later years and, therefore, the result is less satisfactory than a steady annual rate of return at the average.

5. THE FEASIBILITY OF THE RETURN

We arrived then at the broad conclusion that with financing under section 502 (c) of the act, the vessel will earn 3.7 percent on our original equity investment. While return on the company's original equity investment is the generally accepted measure of the worth of an investment, there are others.

In this case, the effect of earned depreciation is such that the average capital investment of the company over the 20-year period is $7,074,212. The average return indicated of $431,700 amounts to a return on average equity investment over the life of the vessel of 6.1 percent. Yet, even these low returns must be discounted in the light of several additional factors.

One is that the transpacific passenger business is a very risky enterprise.

Passenger lists can be cut to almost nothing by a threat of hostilities in the Orient, even though that threat should within fortnight be proved groundless.

One half-full sailing will eliminate the anticipated profit from a year and a half of optimum operation. Even the ordinary hazards of the sea take on imposing proportions when it is remembered that a month in a repair yard would cost, for time alone, more than a third of a million dollars in capital charges and in unearned overhead.

Another is that none of my computations has made allowance for the several millions of dollars of working capital required to operate the superliner. The return indicated does not provide for earnings on this money.

Still another financial consideration is the risk and responsibility related to the borrowed capital.

American President Lines will be committed to repayment of some $32 million and the normal conduct of business requires, of course, an override on the borrowed capital to compensate for the risk incurred. Even with Government financing, the company is obligated for full repayment. Our computations make no allowances for this risk on borrowed money, which is a real one.

The committee may be wondering why American President Lines is willing to make so large an investment to produce a return which is less than could be obtained from high grade and virtually riskless bonds and preferred stocks. Here are our reasons:

In the first place, the transpacific passenger trade is our job, and we want to discharge our responsibility even though the financial return be less than satisfactory. American President Lines and its predecessors have been in the transpacific passenger business for nearly a century. We have pride in this record and a belief that the good will and satisfaction which have been achieved have value to us in future operations. Continuity of service in our business is vital.

In the second place, we expect some indirect return on our freight operations from the prestige which attaches to a liner such as this. We operate four shipping services under contract to the United States. In addition to this transpacific passenger service, we have a transpacific freight service from California to the Far East, a round-the-world freight and passenger service and a freight service from the Atlantic ports to Malaya and Indonesia.

In the third place, any operator of a United States flag liner service is of necessity gambling on long-term rise in the price level. A long-term decline in the price level, after this vessel was built, could be disastrous, while a long-term increase could make the vessel financially attractive in the second decade of its life. All of these can probably be added up into the simpler conclusion that we are steamship operators. We like our responsibility and, in discharging it, are ready to take on another hazard to its financial success.

6. USE OF THE MERCHANT MARINE ACT METHOD BENEFITS THE GOVERNMENT

The committee may be interested to know that our calculations show that the Government will gain, not lose, by extending us the necessary benefit of financing the transpacific liner under section 502 (c) of the act.

The cost of Government debt at December 31, 1957, was 2.889 percent as reported by the Department of the Treasury. This is the highest average interest rate for many years.

Banking advisers inform us that over a long period it is unlikely that Government borrowings will require an average rate above 3 percent. There is therefore a gain of ½ percent on statutory mortgage loans made at 3½ percent.

Over the 23-year period covering the construction and mortgage loans on the new liner, the Government's gain would be $1,841,393.75.

The Government would also, of course, gain 52 percent by income tax on the added income arising from financing under section 502. The added income tax averages $432,800 a year.

In 20 years this added income would bring the Government $4,502,000 in additional income taxes. Thus, the Government's total cash gain is approximately $6,343,000 from financing the transpacific passenger liner.

D. EQUIVALENT OF GOVERNMENT FINANCING

Earlier in my testimony, I mentioned that the principle of the United States Line bill would solve our problem effectively, but that we had concluded that the procedures first decreed by Congress under the Merchant Marine Act, 1936, for financing merchant ship construction would be adequate to our needs.

It has occurred to us that the committee may know of reasons which make it desirable to afford the benefit of the Government financing result while retaining the form of private financing. While we do not advocate this, we have endeavored to estimate the figure at which this could be achieved.

Under section 502 (c) financing, the vessel will cost $43,031,000. Our calculations indicate that a net cost for the vessel which, under private financing, would result in approximately the same very modest average net income is $36 million.

Thus, if the committee were to conclude that it is preferable to provide for a fixed price sale to American President Lines, the terms of our proposal would be roughly achieved by a fixed sale price of $36 million.

E. THE 50-PERCENT LIMIT

I want, finally, to raise with you one problem which seems more real than it did last summer.

Section 502 (b) of the 1936 act limits construction-differential subsidy to 50 percent of the construction cost.

The increase in United States costs has resulted in construction-differential subsidy rates for the current freighter contracts which are running over 45 percent. There seems to be a real danger that the 50 percent limit may be too low when the bids are opened on a vessel so different from the usual American shipyard experience as this superliner would be.

If shipbuilding costs at the time of contract were more than double the foreign-flag base, the result would throw all our calculations away and making the transpacific liner a financial catastrophe for American President Lines.

We feel it is necessary to ask that, in the case of this superliner, this 50 percent limitation be removed. We believe also that this request involves no departure from the principles of the 1936 act, but only the removal of a limitation on these principles which could in this case frustrate its purposes.

Accordingly, I should like to ask that the committee consider favorably an amendment to the bills before it—H. R. 9432, H. R. 9457, H. R. 9474, H. R. 9477—and I understand there is another bill at this time—to add to the end of section 2 the following:

"*Provided*, That the limitation of construction-differential subsidy to 50 percent of the vessel's cost, as provided in paragraphs (b) and (d) of Section 502 of said Act, shall not be applicable."

F. LEADERSHIP OF FEDERAL MARITIME BOARD

No discussion of the transpacific liner would be complete or accurate without recognition of the leadership exercised by the Federal Maritime Board, Clarence Morse, Chairman, and Ben Guill and Thomas Stakem, members, in bringing the ship project to a point at which its construction is justified.

Clarence Morse, and his two colleagues, recognized the need for additional transpacific passenger service and about 18 months ago authorized, in accordance with statute, the performance of additional subsidized passenger voyages.

They authorized American President Lines to buy the steamship *Panama* and place it in service on the California-Orient route as an interim vessel until it should be replaced with a new, fast, large liner—the ship we are discussing today.

The members of the Board's staff and of the Maritime Administration staff cooperated at all times in the development of preliminary design and engineering requirements and in details of planning for the first Pacific superliner.

In these comments, I am not implying any administration support for this bill or any indication of the administration position.

I do not know what views the Federal Maritime Board, through its Chairman, will present to the committee.

I am hopeful that their views will parallel ours.

However, whether they do or not, it is important to note that no company could have received more responsible treatment and consideration in developing a program for major ship construction which embodies vital aspects of national policy.

American President Lines has, as I said at the beginning, carried out an $83 million vessel replacement program without seeking any special assistance from the Congress.

As we have come up to the transpacific superliner, we have reluctantly realized that its construction is simply not feasible without some additional assistance.

We have tried to tailor the measure of that assistance to the smallest possible pattern. It can, indeed, be argued that we have cut it too fine, but we are prepared to go ahead on the basis we have indicated, in strict accord with the principles of the 1936 act.

Enactment of these bills, with the minor amendment I have suggested, will give the United States a fast 43,000-ton vessel in the Pacific, ready for speedy conversion to whatever military need should arise in that troubled ocean.

It will give the United States merchant marine a splendid luxury liner whose speed and prestige will dominate the Pacific for many years to come. I think, too, that its beauty and its efficiency will bring a catch to the throats of the people, of all nationalities, who watch this gleaming piece of America move into the harbors of Yokohama, Kobe, Hong Kong, and Manila.

Certainly, the stature of the United States in its international relations, the strength of the United States in its defense arsenal of weapons, and the competitive power of the United States in world merchant marines would all be enhanced if the Government were to join with American President Lines in facilitating the construction of this proud new ship for the Pacific.

American President Lines is ready and willing, and with this legislation, will be able to place the Steamship *President Washington*, one of the world's finest ships, in regular service spanning the world's greatest ocean.

The CHAIRMAN. This is a very interesting statement, Colonel Brinson.

Mr. Garmatz?

Mr. GARMATZ. Did you have any meetings with the Maritime Board and what were the results of those meetings?

Colonel BRINSON. We have not, sir.

You are talking about construction differential?

Mr. GARMATZ. Yes. There was no meeting at all with Maritime?

Colonel BRINSON. No, sir; we have no bids and, of course, that would not come up until that time.

The only thing we could discuss would be the estimated foreign cost of a ship of this size, but we have not discussed it with them that I know of.

Mr. GARMATZ. That is all, Mr. Chairman.

The CHAIRMAN. You mean that American President Lines has not discussed the possibility of building the ship under the 1936 act?

Colonel BRINSON. Oh, yes, sir; we have. We filed a construction differential subsidy application under 502 (c).

The CHAIRMAN. In your discussions you find that the provisions of the 1936 act as set forth in your statement prohibit you from going into a contract to purchase a vessel built under the 1936 act?

Colonel BRINSON. You are speaking of private financing, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Colonel BRINSON. No, sir. We consider it economically unfeasible.

The CHAIRMAN. That was the difficulty.

Colonel BRINSON. Yes, sir.

The CHAIRMAN. It was private financing?

Colonel BRINSON. Yes, sir.

The CHAIRMAN. What other difficulty was there?

Colonel BRINSON. We really have no other difficulty with the possible exception of having to break through the 50 percent limitation on construction differential subsidy.

The CHAIRMAN. They are the only two provisions in the 1936 act that would prohibit your negotiating the construction of the vessel under the existing law.

Colonel BRINSON. Yes, sir.

I might explain, Mr. Chairman, that this is entirely within the law and, of course, private financing is entirely within the law. It is a question of which to choose.

We say we cannot build under private financing as it would be economically unfeasible.

All we ask for here is that the Congress authorize its building under the provisions of 502 (c), and further authorizes the Federal Maritime Board to go beyond the 50-percent construction differential subsidy if, after receiving the domestic bids and after estimating the foreign cost, they find that estimated foreign cost would be less than half what it would take to build a ship in this country.

The CHAIRMAN. The Maritime Board has the authority to take such steps at the present time?

Colonel BRINSON. No, sir; they have a 50-percent limitation. They would have to have statutory authority to go beyond the 50 percent if that case arises.

The CHAIRMAN. I understand, Colonel. I am asking some of these questions for the record to get the facts in the record, whether we know it or not.

I am asking you who represents the company in negotiating with Maritime so that we can get the facts in the record.

Colonel BRINSON. Yes, sir.

The CHAIRMAN. Mr. Tollefson?

Mr. TOLLEFSON. Section 502 (c) is still on the books; is it not?

Colonel BRINSON. Yes, sir.

Mr. TOLLEFSON. Therefore, technically under the law the Maritime Administration could enter an agreement with you for financing under 502 (c)?

Colonel BRINSON. They could, sir.

Mr. TOLLEFSON. Just for the record, why do you not do it?

Colonel BRINSON. I think Mr. Morse and the Board will have to explain that, sir.

Mr. TOLLEFSON. As a matter of fact, it has been the policy not only of the administration, but of Congress itself, to favor private financing in recent years; is that not true?

Colonel BRINSON. Yes, sir; that appears to be the administration's policy—that all ship construction be financed under title XI insurance, which is private financing.

Mr. TOLLEFSON. In a sense, it has also been the policy of Congress because it was the agency that passed the private financing law.

Colonel BRINSON. That is right, sir.

Mr. TOLLEFSON. However, I just wanted the record to show that 502 (c) is still the law of the land and could be utilized if Congress, through the bill pending before this committee, should say, "All right, go ahead under 502 (c)."

Colonel BRINSON. Yes, sir.

I might say there, Mr. Tollefson, that in the President's budget there is an item of $34 million for our ship, which brings into play private financing. The remainder, of course, would be insured. We would have to raise it through private financing and it is insured under title XI 100 percent; but many of the difficulties involved and the financial burdens of private financing were brought to recent experience with the investment bankers.

Mr. TOLLEFSON. You take the position in your statment that Government financing under 502 (c) would not cost the Government any money at all, but, on the contrary, would result in a financial gain to the Government?

Colonel BRINSON. Of approximately $6 million; yes, sir.

Mr. TOLLEFSON. I would like to ask you some questions about your ship. How many passenger ships do you have serving the Pacific—strictly passenger ships?

Colonel BRINSON. We have three serving the Pacific alone, sir. That is the *President Cleveland* and *Wilson* and the *President Hoover*.

We have in addition to that going westward across the Pacific two combination passenger-cargo ships, the *President Polk* and *Monroe*.

Mr. TOLLEFSON. How many passengers do they carry?

Colonel BRINSON. They carry normally only around 70 to 75, sir.

Mr. TOLLEFSON. Do all of those ships make round trips in the Pacific?

Colonel BRINSON. Only the three, sir; the *Presidents Cleveland*, *Wilson*, and *Hoover*.

Mr. TOLLEFSON. They make round trips?

Colonel BRINSON. Yes, sir.

Mr. TOLLEFSON. What is their pasenger carriage capacity?

Mr. PAINE. The *Presidents Cleveland* and *Wilson*, sir, have a first-class passenger capacity of 330, and a third-class passenger capacity of 474. They are operated as 2-class ships and not as 3-class ships, such as we contemplate for the new liner.

Mr. TOLLEFSON. How many do you compete with for passenger service in the Pacific?

Colonel BRINSON. We actually have very limited competition foreign.

As a matter of fact, we have no foreign passenger ships in direct competition with us—strictly passenger ships.

Mr. TOLLEFSON. When I say "Pacific" I am talking about service to the Orient. I am not talking about service, say, to islands.

Colonel BRINSON. Yes, sir; I understand that.

Mr. TOLLEFSON. What would happen if the Japanese build a passenger vessel? As I gather from your statement there is some talk about the Japanese building a vessel. What would happen if this other company that you discussed in your statement built a vessel or vessels for operation in the Pacific?

Colonel BRINSON. We would be confronted with direct competition which we have not heretofore had, which spurs us on and makes the matter of building a third superliner urgent.

In other words, we want to beat down competition rather than to wait until the competition arises and then build immediately.

Mr. TOLLEFSON. In other words, this is kind of a self-defense proposal on your part?

Colonel BRINSON. Yes, sir.

Well, no, sir; there has been for several years now demand for increased additional passenger tonnage in the Pacific.

Mr. TOLLEFSON. You are satisfied in your own mind and your company is satisfied that the passenger traffic in the Pacific is bound to increase on the basis of past experience

Colonel BRINSON. Yes, sir.

Mr. TOLLEFSON. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. Colonel, getting away from financing of the ship, in which we are all interested, and considering the actual operation of the ship, in the event of war would we need additional shipping in the Pacific to service our people who are overseas and bring back dependents, Americans in the Far East at the present time?

Colonel BRINSON. In our opinion, we would be in desperate need of it, sir. I am sure that Admiral Wilson of the Navy will give you the Navy view.

We think we would be in desperate need.

Mr. MILLER. Is it the feeling of your company and yourself that, if we can keep away from war, there will be new passenger business, tourism, created in the countries of the Orient that are now just emerging into a new life in that section of the world?

Colonel BRINSON. We think it is almost unlimited, sir. The Philippines and Japan.

Mr. MILLER. In the Philippines we have an unknown new country coming up, Vietnam, that offers great attractions and we have Indonesia, which is a sleeping giant industrially and otherwise, once we can get a blanket of peace over the world.

Colonel BRINSON. We feel so.

Mr. MILLER. And we cannot wait too long because the Japanese in the past have shown themselves quite adept at filling these vacuums; have they not?

Colonel BRINSON. Yes, sir.

Mr. MILLER. I have no further questions, Mr. Chairman.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Colonel Brinson, there has been no revival of foreign competition in passenger traffic since World War II. Has your experience been the same in the freight business? What has been your experience with foreign competition in the Pacific since World War II?

To enlarge on the question a little bit, could you give us the approximate percentages of the foreign commerce on the Pacific to and from the Pacific coast which was carried in American-flag ships year by year?

Colonel BRINSON. It has been gradually increasing, Mr. Allen, due to ship construction in Japan primarily. I would say that this is a guess and this is only a guess.

Five years ago we were carrying 80 percent to maybe 85 percent, whereas now the last figures I saw indicated the American flag is carrying around 50 percent of our foreign commerce.

Mr. ALLEN. The foreigners are coming back in the trade at a fairly rapid rate?

Colonel BRINSON. Very rapidly.

Mr. ALLEN. Are they coming back with new ships or old ships?

Colonel BRINSON. Those are primarily new ships from Japanese shipbuilding.

Mr. ALLEN. Getting back to this proposed ship, are there defense features built into the proposed superliner comparable to those which might go into the steamship *United States*, or its sister ship?

Mr. PAINE. Mr. Allen, I could probably answer that for you.

This ship has been designed on a commercial basis. The ship is suitable and we stand ready to incorporate in it any defense features which are desirable from the Government's point of view.

Mr. ALLEN. Have you considered the cost of such features in the figures that have been given to us?

Mr. PAINE. No, sir; the defense features would have to be added to our vessel. However, I think I might point out that you can't overlook the defense feature of having a ship of this type even if the speed and sizes are tailored for commercial purposes, but we do stand ready to up the speed to bring such defense features as we can foresee the Department of National Defense will probably request.

Mr. ALLEN. Do you know how many ships of more than 100 passenger capacity you had prior to World War II?

Mr. PAINE. I believe that is in the record. You mean APL, Mr. Allen?

Mr. ALLEN. Yes; or the old *President Taft* and that type of ship.

Mr. Chairman, may the appendixes that were submitted with the statement of Mr. Killion be admitted in the record?

The CHAIRMAN. That will be done.

(The material referred to follows:)

APPENDIXES: SUPPORTING DATA FOR THE PROPOSED CONSTRUCTION OF AMERICAN PRESIDENT LINES TRANSPACIFIC PASSENGER LINER

APPENDIX A

Transpacific passenger vessels, prior to World War II (1937–41)

AMERICAN PRESIDENT LINES

TRANSPACIFIC SERVICE

	Gross tonnage	Length	Date built	Speed	Passenger capacity			
					1st class	Tourist class	3d class	Total
President Cleveland	14,124	535 feet	1921	17½	106	86	580	772
President Lincoln	14,124	do	1921	17½	104	86	540	730
President Pierce	14,124	do	1921	17½	104	76	588	768
President Taft	14,124	do	1921	17½	108	80	538	726
President Wilson	14,124	do	1921	17½	101	79	428	608
President Hoover	21,936	654 ft., 3 ins	1930	20	310	133	402	845
President Coolidge	21,936	do	1931	20	310	133	402	845
ROUND THE WORLD SERVICE (TRANSPACIFIC WESTBOUND)								
President Adams	10,496	522 ft., 8 ins	1921	14	153			153
President Garfield	10,496	do	1921	14	149			149
President Harrison	10,496	do	1921	14	133		122	255
President Hayes	10,533	do	1920	14	109		130	139
President Monroe	10,533	do	1920	14	125		116	241
President Polk	10,496	do	1921	14	128			128
President Van Buren	10,533	do	1920	14	120			120
REPLACEMENTS FOR THE RTW SERVICE—CONTRACT FOR CONSTRUCTION IN 1940–41								
President Adams	9,260	491 ft., 10 ins	1941	16½	96			96
President Garfield	9,260	do	1940	16½	96			96
President Hayes	9,255	do	1940	16½	96			96
President Jackson	9,255	do	1940	16½	96			96
President Monroe	9,255	do	1940	16½	96			96
President Polk	9,260	do	1941	16½	96			96
President Van Buren	9,260	do	1941	16½	96			96
AMERICAN MAIL LINE								
President Grant	14,124	535 feet	1921	17½	105	95	678	878
President Jackson	14,124	do	1921	17½	105	95	656	856
President Jefferson	14,124	do	1920	17½	105	95	665	865
President Madison	14,124	do	1921	17½	105	95	650	850
President McKinley	14,124	do	1921	17½	105	95	646	846
NYK CALIFORNIA SERVICE								
Asama Maru	16,975	560 feet	1929	19	239	96	504	839
Chichibu Maru	17,498	do	1930	19	243	95	500	838
Tatsuta Mari	16,975	do	1930	19	239	96	504	839
Taiyo Maru	14,457	do	1911	16	250	175	300	725

Transpacific passenger vessels, prior to World War II (1937–41)—Continued

PACIFIC NORTHWEST SERVICE

	Gross tonnage	Length	Date built	Speed	Passenger capacity			
					1st class	Tourist3d class	class	Total
Heian Maru	11,616	511 feet	1930	17	125	80	130	335
Hikawa Maru	11,622	do	1930	17	125	80	130	335
Hiye Maru	11,621	do	1930	17	125	80	130	335

SOUTH AMERICAN SERVICE

Bokuyo Maru	8,619	445 feet	1924	12	42	51	218	311
Rakuyo Maru	9,419	460 feet	1921	12	42	51	218	311
Heiyo Maru	9,816	do	1930	16	42	80	498	620

CANADIAN PACIFIC

Empress of Asia	16,900	570 feet	1913	20	292	74	518	884
Empress of Russia	16,800	do	1913	20	292	74	518	884
Empress of Canada	21,517	627 feet	1922	20	453	94	410	957
Empress of Japan	26,032	644 feet	1930	22	268	164	378	810

OSK—SOUTH AMERICAN SERVICE

Brasil Maru	13,000	545 feet	1940	21	101	136	674	911
Argentina Maru	13,000	do	1939	21	101	136	674	911
Buenes Aires Maru	9,626	482 feet	1929	15	60	154	856	1,070
Rio de Janeiro Maru	9,627	do	1930	15	60	154	856	1,070
Santos Maru	7,267	430 feet	1925	15	38	94	666	798
La Plata Maru	7,267	do	1926	15	38	94	666	798
Montevideo Maru	7,267	do	1926	15	38	94	666	798

In 1939 there were the following passenger-carrying freighters operating in the transpacific service:

Line	Sailing frequency	Passenger capacity per vessel
Kerr Steamship Co	Fortnightly	6 to 12.
Pacific Java Bengal Line	do	5 to 12.
Prince Line	do	8.
Barber Line	do	4 to 12.
Barber Wilhelmsen Line	Monthly	4 to 12.
Klaveness Line	do	8 to 12.
Maersk Line	Fortnightly	8 to 12.
Salen Line	Monthly	3 to 8.
Kokusai Line	do	Not known.

NOTE.—The Blue Funnel Line also operated vessels across the Pacific. These ships had relatively small capacity, but did carry 1st- and 3d-class passengers. Capacities varied according to which ships were in the transpacific service.

APPENDIX B

[The Mainichi, December 4, 1957]

JAPAN PREPARES FOR BUILDING OF LUXURY PASSENGER LINERS

The construction of passenger liners is now coming to the fore, with many leading shipping lines going all out in building luxurious superliners for transportation of tourists.

During the 1957 season, five new ships steamed into service on the transatlantic route between the United States and Canada and Europe. They are Holland-America's *Statendam* (20,000 tons), accommodating 868 tourist and 84

first-class cabins; Canadian Pacific's *Empress of England*, 25,000 tons and 1,060 passengers, which is sister liner of *Empress of Britain;* Swedish American's *Gripsholm*, carrying 842 passengers with a speed of 20 knots; Cunard's *Sylvania*, 21,180 tons and 925 passengers; and Grace Line's *Santa Rosa*, 15,000 tons and 300 passengers at 20 knots.

In the next few years, more ships will serve on the transatlantic and round-the-world surface transportation as Grace Line's *Santa Paula*, 55,000 tons, 2,000 passengers, France, which will be the world's third largest, and Italy's *Leonardo da Vinci*, a 33,000-ton liner, are expected to be launched. Furthermore, the Italian *Federico C.*, 20,000 tons and 1,200 passengers, will be ready for the run to South America next year. Holland's *Rotterdam*, about 37,000 tons and 1,300 passengers, will sail the North Atlantic. England's Peninsular & Oriental is building a 45,000-ton liner, yet unnamed.

According to the recent announcement, Lloyd's Register counted 36 new liners of more than 20,000 tons each since the end of World War II.

ONLY DESK PLAN

In Japan, construction of passenger liners is still no more than a desk plan. There is no specific project to construct a 20,000-ton superliner within a year or so. However, shipbuilders and shipping lines have various blueprints ready of the new superliners they will construct in the near future.

For several years, shipping circles have urged that the construction of passenger carriers to be put on the transpacific route between Yokohama and San Francisco and Los Angeles via Honolulu, is an urgent problem for the Japanese marine transportation.

Due to an active campaign of the shipping interests, the Japanese Government is going to establish a new superliner construction law, which will regulate Government subsidy to ship owners.

The Transportation Ministry is preparing to send the bill for the construction of superliners to the coming ordinary Diet session, which will begin early in December.

If the bill passes the Diet by early next year, the blueprint of the plan will be put into practice by the beginning of next fiscal year.

According to the present program planned by NYK Line, which operated more than 5 liners on the transpacific and Indian Ocean in prewar days, the keel would be laid by next April or May for the 22,000-ton, 800 tourist, and 150 first-class passenger liner which will cost ¥18 billion ($50 million). This, however, depends on what occurs in the forthcoming Diet session.

ANOTHER LINER

The luxurious liner, unnamed yet, would be completed in 1960, if its construction program begins as per schedule. Following the keel of the superliner, NYK is planning to build another 20,000-ton passenger carrier, whose construction is to be undertaken by the beginning of the 1959 fiscal year. The second liner, also unnamed yet, will be a sister liner of the first one.

When the 2 luxurious passenger liners are placed on the transpacific service in 1961, the NYK Line should be able to operate the Yokohama-San Francisco-Los Angeles-Tokyo cruise 8.7 times in a year, which means each ship will be able to cover the route within 39 days.

If both passenger liners of NYK ply the Pacific Ocean, the present traffic congestion on the transpacific run, which is operated at present by the American President Line's three liners—*President Hoover*, *President Cleveland*, and *President Wilson*—would be greatly relieved.

[Shipping Gazette, November 25, 1957]

OSK Planning 20,000-Gross-Ton Atomic Vessel To Transport Emigrants Across Pacific

The Osaka Shosen Kaisha, in close cooperation with the Shin Mitsubishi heavy industries, has been formulating a plan for building a 20,000-gross-ton atomic emigrant vessel for transpacific service, aiming to have it ready by 1960.

Since the United States Navy has made a great success with its atomic submarine *Nautilus* (which circumnavigated the globe underwater without refueling), Norway and Britain have been working around the clock to perfect submarine tankers.

WILL HAVE POWERFUL ENGINE

The proposed OSK atomic emigrant vessel will be equipped with a 40,000-horsepower main engine, capable of making 25 knots, fully loaded. She will accommodate 200 first- and second-class cabin passengers, 1,500 third class (steerage), a crew of 200, totaling 1,900 persons.

The power reactor will probably be of pressured-water type to be built by Westinghouse. When completed, this atomic vessel is expected to be able to make 6 voyages a year instead of 3 by conventional vessels. The enormous cost, somewhere around ¥7 billion to ¥8 billion, will perhaps be the only stumbling block.

An atomic submarine tanker is regarded as another good probability. Whereas a surface navigating vessel meets the greater resistance of water, the more she speeds up, a submarine does not have to worry about such gathering resistance.

MANY ADVANTAGES SEEN

Furthermore, fuel for an atomic ship takes up practically no space, and the motive power does not have to be fed with air as is the case with coal- or oil-burning vessel, which assures remarkably long-continued submerged navigation. For unloading oil, all it requires are some pumps, no elaborate equipment being needed.

All in all, the age for atomic vessels is steadily approaching. Inasmuch as atomic-energy industry is in its infancy, atomic-vessel construction requires an enormous sum of money, which is where substantial Government backing is needed.

APPENDIX C

TRANSPACIFIC PASSENGER TRAFFIC

CONTENTS

Section 1. A review of transpacific passenger traffic

In 1955 transpacific passenger traffic on commercial carriers exceeded all previous recorded years (1921 to date) reaching the all-time high figure of 91,510 passengers. In 1955 airlines carried 68 percent; ships carried 32 percent. Passenger traffic continues to increase.

Section 2. The China situation

Effect on passenger traffic if trade is resumed with Communist China: In prewar days 21 percent of transpacific first- and second-class traffic moved through Shanghai. Many prewar sources of passenger traffic with China no longer exist. Maximum effect on passenger traffic under optimum conditions not expected to exceed 10 percent of transpacific total; in the nearer period, if trade is resumed, expected to range from a small amount of traffic to possibly 5 percent of transpacific total.

Section 3. A method of estimating the volume of transpacific passenger traffic in 1961

By comparisons with population growth in the United States and the results of motivation to travel, the volume of transpacific travel in 1961, total sea and air, is projected at a figure of 150,778 passengers.

Section 4. Division of transpacific passenger traffic between sea and airlines

Upon reaching the 50-percent level the air lines' share of transpacific passenger traffic was rising very slowly until the air lines introduced tourist-class fares, a type of passage not available on transpacific liners. With the introduction of tourist class service on the airlines, their share of traffic rose to 68 percent in 1955.

Provided the surface carriers include provision for meeting demand for "middle class" accommodations, it is estimated that by 1961 they can retain 40 percent of total transpacific passenger traffic and that in the longer period of time their share should range between 40 and 35 percent. At 40 percent surface carriers would secure 60,000 passengers in 1961.

Section 5. New Japanese liners and sufficiency of traffic for transpacific sea carriers

It is expected that Japanese-flag passenger liners will be built for the transpacific passenger trade and that these liners, probably two in number, will be

operated by the N. Y. K. Since no definite plans have been announced, we have assumed that these Japanese liners will be in operation by 1961 and will secure approximately 16,000 passengers a year.

It is considered that APL can secure sufficient passenger traffic in 1961 to support the operation of one 26-knot superliner together with the *President Cleveland* and *President Wilson.*

Section 6. Characteristics of new vessel construction

The airlines have amply demonstrated that speed attracts passenger traffic. We cannot compete with the airlines on speed alone, but the combination of a 10-day crossing to Japan and the comforts of ship travel will attract traffic.

We should keep abreast of, or ahead of, if possible, the plans of our competitors in the matter of speed of vessels.

While the Orient Line serves on the southern route in the Pacific, it is reported that the new vessel they plan to build will have a speed of 27 knots.

ATTACHMENTS—TABLES AND CHARTS

1. Table showing details of transpacific passenger traffic 1951–56.
2. Chart showing growth of transpacific travel.
3. Chart showing pattern of changes in income brackets in the United States.
4. Table showing division of prewar passenger traffic by Orient country, including Shanghai.
5. Table showing growth of population in the United States and relationship to travel as gauged by United States passports issued.
6. Chart showing growth of volume of United States passports issued compared with growth in United States population.
7. Chart showing the growth of total overseas air travel between the United States and foreign countries and the effect of air tourist class service.

SECTION NO. 1

REVIEW OF PASSENGER TRAFFIC BETWEEN PACIFIC COAST/HONOLULU AND THE ORIENT

Attachment I is a table summarizing transpacific passenger traffic to and from the Orient during the 5-year period 1951–55. Previous reports contain details of traffic by carrier, by month, by class, and by port.

Our records of the volume of passenger traffic across the Pacific begin with the year 1921. In the years 1923 and 1924 total travel across the Pacific (i. e., both directions) approached the 80,000 mark; these 2 years having the biggest volume of the prewar period 1921–41. By 1938–40 transpacific traffic had settled at about 40,000 to 42,000 a year, the decrease being principally due to the decline in Asiatic steerage because of immigration restrictions and, coupled therewith, the discontinuance of the use of Philippine labor in the Hawaiian sugar fields. Although transpacific air service was started in October 1936 there were still only a few hundred passengers crossing the Pacific annually by 1940. In 1940 the passengers crossing the Pacific by sea patronized the three classes available in the following proportions:

	Percent
First class	26
Second or tourist class	23
Third or steerage class	51

In 1955, for the first time, we see that the 1921–41 record has been exceeded inasmuch as total transpacific passenger travel in 1955 (both directions, by sea and by air) came to 91,510; an increase of 25 percent over the 1954 total of 73,362. Ship travel in 1955 totaled 28,915 passengers versus 27,950 in 1954, representing a small increase only, due to the fact that, in general, the ships serving the Orient have been operating at or near their capacity since 1953. Air travel in 1955 totaled 62,595 passengers versus 45,412 in 1954, an increase of 38 percent. The few 1956 figures available appear to indicate that air travel is continuing to increase at about this same rate, although the data available is by no means sufficient to be conclusive.

AIR VERSUS SEA

In 1951 the airlines carried 52 percent of the total transpacific passenger traffic. The airlines' share has risen since then to 68 percent in 1955. Conversely the ship lines' share has decreased from 48 percent in 1951 to 32 percent in 1955, even though the quantity of ship travel has increased in that period.

APL SHARE

In 1951 APL carried 82 percent of the sea traffic and 40 percent of the total traffic. In 1955, in spite of carrying more passengers, APL share of sea traffic was 69 percent and of total traffic 22 percent. APL's percentage of sea traffic has been affected by the resumption of limited operations by the NYK with the return to transpacific service of their *Hikawa Maru* in the latter part of 1953, and the addition of various nonconference Japanese freighters on the route whose carryings are not known but have been estimated in the tabulations.

In the prewar years, APL (and predecessors) usually obtained from 25 to 30 percent of the total transpacific traffic, and this was at a time when our competition consisted of surface carriers like ourselves. Since we are now the only liner operator to the Orient (apart from the limited service afforded by N. Y. K.'s prewar *Hikawa Maru*), a 22-percent share of total 1955 traffic does not compare at all favorably with our prewar performance, but the limiting factor has been lack of space to sell.

SHIP TRAFFIC BY CLASSES

There is virtually no tourist-class space offered today by transpacific ships. Whereas there were relatively few passenger-carrying freighters in prewar days, there are many such ships now, and their carryings (7,268 passengers in 1955) may be considered as corresponding to the former tourist-class traffic. The reason is that these freighters offer the only medium-priced accommodations that are available by surface carrier. On this basis the 1955 traffic by ships consisted of 28 percent first class, 25 percent middle or tourist class, and 47 percent third class. The shift in these percentages from those existing in 1940, as shown above, is small and in any case is subject to distortion from what would have been the case if we had had ship space to offer the increasing demand. However, the changes shown would appear to indicate a growing demand for first- and tourist-class space and a lesser demand for third class. We believe that this is so and that this trend will continue.

Insofar as economic conditions in the United States are concerned, and unquestionably this has a direct bearing on the subject of transpacific passenger traffic, an article in Nation's Business of June 1956, in describing expected changes in the purchasing power of United States population by 1965, states that "more people will move to higher brackets" of income. The biggest change expected is in the class of families and individuals in the over $10,000 a year income bracket. The article states that in 1956 a total of $90 billion of personal income, or 28 percent of all personal income, goes to 4,400,000 families and 100,000 persons not in family units in the $10,000 a year and over category. By 1965 this $10,000 a year and over group is expected to consist of 8,800,000 families and 200,000 unattached individuals who will receive $185 billion income, or 40 percent of total personal income. We see a double effect here. First, we have the natural increase in population which, by itself, should mean that there would be more people in a given income bracket by 1965; and second, we have a shift of people from lower to higher income brackets. In 1956, the number of family units and unattached individuals with less than $5,000 a year income is stated to be 24 million; by 1965 this group is expected to have declined to 19 million. Again, demonstrating the shift to higher incomes, the "over $5,000" a year figure in 1956 comprises 28.5 million (families and individuals) whereas by 1965 it is expected that this group will comprise 41 million. Attachment No. 3 is a chart showing further details of these changes.

The impact of these changes will inevitably be reflected in increased travel in general and in increased travel in the Pacific.

INCREASE IN TRAVEL

Several factors point directly to a continuing increase in passenger traffic, and at an accelerating rate. Among these factors are:

1. Phenomenal increase in population in the United States. As of April 1, 1956 the population of the United States is approximately 167,500,000. This is an increase of some 16 million since the last official census of April 1, 1950. By 1965 it is expected that our population will be in the neighborhood of 190 million and by 1975 some estimates have been made running as high as 228 million. It is interesting to note, also, that almost all of the population forecasts made in the last 10 years, including those made by the

United States Census Bureau, have been materially exceeded by the actual figures as time goes on.

2. The trend toward fewer people in the lower income brackets and more people in higher income brackets, as noted above.

3. The trend toward an increase in the average span of life which means that there is an increasing percentage of total population who have reached the age when they have time for travel.

4. The shift in population from the eastern part of the United States to the West. The present trend indicates that California will supplant New York as the most populous State in the early 1960's. This should particularly benefit travel in the Pacific.

5. Cargo tonnage in the Pacific is increasing. Increased trade brings increased passenger business for the simple reason that it takes people to handle the transactions involved.

6. The possibility of the resumption of trade with China. Comments will be made on this subject in section No. 2 of this report.

The actual figures on transpacific traffic in the past few years, as shown in tables attached to this report, offer evidence of the growth that is taking place. A straight-line extension of the 1951–55 traffic totals would indicate a figure of 159,000 transpacific passengers in 1961. In one respect this figure is too high as it does not take into account the stairstep rise in the overall level of traffic that occurred with the introduction of tourist class air fares in 1954. In other words this was a one-time factor in raising the general level of traffic totals and while the stairstep effect of air tourist fares in 1954 over 1953 was repeated in 1955 over 1954, it should not be expected that this can be repeated year after year. To explain this in the actual traffic figures, in 1952 air traffic, all first class amounted to 31,000 passengers, in round figures. Air traffic in 1954, without the introduction of tourist class could be expected to have been about 36,000 or so, but was actually 25,000 in the first class and 20,000 in tourist class. It may be said then that in 1954 tourist class air service derived 11,000 passengers by diversion from first-class air and 9,000 passengers by penetration of a field hitherto untapped which was attracted to the new service. Again in 1955, if there had been only first-class service on the airlines, air traffic might have been, say 40,000. Actually 1955 air traffic was 25,000 first-class and 38,000 tourist class, so it may be said that the tourist air service had derived 15,000 passengers by diversion from first-class air and 23,000 from new business. It should be noted that air tourist fares were in effect during 9 months only of 1954, and it is recognized that other factors are involved, such as the diversion of Japanese nationals to the newly established Japan Air Lines. However, the figures quoted do show the large and immediate effect of the introduction of a new, moderately priced method of travel across the Pacific.

Recognition of this factor would indicate that the straight-line projection of traffic should be pulled down to a takeoff point in 1955, after the initial effect of the air tourist fares became effective, and parallel to the increasing trend that existed prior to this new element. Such a projection produces a 1961 point of about 136,000 passengers a year.

We have described above, a condition for lowering the first estimate of 159,000 passengers in 1961. We need now to mention several factors which will have a contrary effect.

1. Any new service creates traffic. The Compagnie Generale Transatlantique, in lengthy deliberations regarding the construction of a new superliner for the Atlantic trade, made due note of the fact that the very fact of introducing a new liner would create additional travel. This is equally applicable to what may be expected to result from introducing new liners into the Pacific trade.

2. Suiting the accommodation offered to what the public wants is a potent stimulus to traffic. This was dramatically demonstrated by the airlines when they offered a medium-priced method of travel in the Pacific, as shown in the figures previously given. We have long advocated that our company endeavor to cater to the middle-price type of passenger, as is contemplated in our present vessel construction plans.

3. We may expect an additional stairstep rise in air traffic with the introduction of jetplanes. As an example of the trend in transpacific air travel, Japan Air Lines have announced that in December 1957 they expect delivery of 4 DC–7C's ordered from Douglas Aircraft with which they state that the flying time from San Francisco to Tokyo will be reduced from the present 25 hours to 17 hours. Japan Air Lines has contracted

for additional DC–7C's to be delivered to them by April 1958. Then, in 1960, Japan Air Lines expect to have 4 Douglas DC–8 jetliners which will reduce the San Francisco-Tokyo flying time to 8 hours.

When the transpacific airlines put jetplanes into operation across the Pacific we may expect a further stimulus to transpacific travel and, while the jetplanes will primarily benefit the air carriers, it is also true that increased traffic by air carriers in particular will redound to the benefit of all carriers in general.

4. There are several reasons for expecting transpacific travel to increase in geometric proportion rather than in simple arithmetical proportion and these include the factors of increasing population, shifts to higher income brackets means to travel, shifts to higher age brackets time to travel, increased trade, etc., as previously mentioned. Accordingly, our previous estimate of 150,000 transpacific passengers by the year 1961 seems to be consistent with the known indicators, and this is based upon serving the Orient areas presently open to communication.

Section No. 2. The China Situation

The question arises—when will trade (and travel) be resumed with China? What effect will this have on transpacific travel?

When we consider China in this regard we are in effect considering Shanghai inasmuch as Shanghai always was, and presumably will be in the future, China's link with America, with the important exception of the Cantonese traffic that moved via Hongkong. Shanghai was never an important source of third-class traffic. It is true that in the post war years when we called at Shanghai with the troopers General Meigs, General Gordon, Marine Lynx, etc., we did carry many thousands of passengers in third class to and from Shanghai, but this was a case of emergency-type vessels catering to emergency-type traffic, and had no counterpart in our prewar operation, nor is it expected to in future operations.

Passenger traffic between Shanghai and the Pacific coast consisted normally of first-class and second-class/tourist class passengers. In the period 1930–37, of the total travel between continental United States of America and Asia, 21 percent moved through Shanghai. The distribution of 1930–37 first- and second-class traffic by country in Asia is shown in the table attachment No. 4.

Postwar traffic with Shanghai from the time commercial service was resumed in 1947 until the spring of 1949, when the Communists took over control, is not dealt with in this review as it is considered that it would not contribute to the study. There was a large movement of passengers to and from Shanghai, but a great portion of it was the aftermath of World War II and consisted of the transporting of refugees, displaced persons, internees, et cetera, et cetera.

It should be mentioned that a number of important sources of prewar passenger traffic originating in Shanghai are no longer in existence. Some of these may be expected to be revived when China trade is resumed and some may not.

Among the former sources of traffic in Shanghai which we do not expect to exist in the case of resumption of China trade are:

1. Missionaries. In Julean Arnold's book on China, published as No. 38 of the United States Department of Commerce trade promotion series, it is stated that there were in China 12,530 American citizens, of whom one-half were missionaries. In the missionary population were 2,500 women, 1,500 men, and 2,100 children. It is true that this book was published in 1926 and the data refers to the year 1923, however the figures are representative of normal prewar times.

As stated in our Report No. 44 dated June 5, 1956, subject Trade with China, any resumption of trade relations with China which may occur in the next few years is expected to be with China as a Communist country. Experience thus far with Communist regimes would point to the exclusion of foreign missionaries.

2. Prior to the Communist regime which took over control of Shanghai in the spring of 1949, and to an even greater extent in prewar years, many key positions in the Chinese Maritime Customs, the Chinese Post Office, the municipal utility systems (electricity, gas, water, telephone), the Salt Gabelle, the police department, the river police department, the Shanghai Municipal Council, et cetera, et cetera, were held by foreigners including many British and Americans. These people with their families, were on home-leave basis and traveled regularly to their home countries. It is conceivable that Communist

China may avail themselves of the advice of some foreign technicians in the future, but it is not conceivable that they will allow foreigners to occupy national and municipal positions as was the case before (exception—Soviet Russians—of no interest in this traffic study).

3. In prewar days, which as we have stated, should be used as a basis for comparison in a review of China (Shanghai) passenger traffic, we and other carriers enjoyed a goodly quantity of traffic of European nationals traveling to and from Europe via America. Jointly with the railroads across the United States and Canada and with the transatlantic steamship lines, the transpacific carriers quoted through fares which were competitive with the cost of passage via Suez. In order to arrive at this competitive level the transpacific lines allowed a 20 percent reduction in tariff fares, the railroads 15 percent, and the Atlantic lines 30 percent. The combination of these reduced fares, converted to and quoted in sterling was competitive with the Suez sterling fares and many people were attracted by the opportunity to visit America en route to their European homes.

The importance of this traffic may be illustrated by the following figures pertaining to transpacific traffic from the Orient in 1936.

Eastbound transpacific traffic, 1936

	Total transpacific		Through to Europe portion		Percentage of through to Europe portion	
	1st class	Tourist class	1st class	Tourist class	1st class	Tourist class
					Percent	*Percent*
Dollar Line	2,024	1,651	287	326	14	20
Canadian Pacific	1,741	1,424	930	591	53	41
NYK	1,658	1,587	520	285	31	18
Total	5,423	4,662	1,737	1,202	30	23

Of course only a poriton of the above traffic was from Shanghai inasmuch as these figures are for the entire Orient, but they represent a former source of traffic that no longer exists. The principal reason that we can no longer participate in this traffic is that rising costs in United States dollars coupled with devaluation of the pound sterling in terms of United States dollars have widened the gap between quotations in fares. Today a minimum first-class ticket from the Orient to San Francisco costs approximately the same as the entire trip from the Orient to Europe via Suez.

4. Whereas trade was formerly carried on in China by individuals representing companies, and staffing company branch offices, it may be expected that if and when trade is resumed it will be with semigovernmental organizations or Government-controlled organizations on the Chinese side (see our memorandum dated May 25, 1956, subject Trade With China, listing the presently known Communist China trade organizations), and it may be expected that there will be some restrictions placed on the number of American business representatives and their activities.

5. In prewar days the United States Navy's Asiatic Fleet was regularly stationed in North China waters in the summertime, and a cruiser of the *Augusta* class, as well as the Yangtze patrol gunboats, were maintained in Shanghai. From the complement of these ships we derived a steady flow of passengers between Shanghai and the United States consisting of officers, whose tour of duty on the Asiatic station had expired, and were returning to the United States with their families, as well as replacements being brought out from the United States with their families. There were United States Navy transports in operation and they carried the bulk of the enlisted traffic and officer and dependent traffic in accordance with their capacity, but there was sufficient overflow to contribute substantially to our carryings.

6. Formerly the United States consulate general in Shanghai was the largest United States consulate general in the world in point of numbers of staff. One may doubt that this will be so when relations are resumed with Communist China.

7. It is seriously doubted that Communist China will permit Chinese students to come to the United States to take 4-year university courses to become ac-

quainted with American culture. The student movement used to furnish us with several hundred passengers a year in each direction to and from Shanghai. It may be expected that Communist China will allow some of their nationals to come to the United States for short courses of technical training in industrial processes which they cannot obtain elsewhere.

Noted above are varieties and sources of passenger traffic that may not be expected to be available, at least initially, upon resumption of calls at Shanghai. They are substantial items on the debit side. On the credit side, i. e., what traffic may be expected, we would list the following:

American diplomatic and consular staffs involved in the resumption of relations with China. Perhaps their families would not accompany them initially, but would follow later.

A limited number of representatives of American companies to engage in trading relations with China.

Representatives of American steamship and airlines, including executive, operating, and traffic personnel.

Technical advisers to the extent that they would be desired by and permitted by the Chinese Government.

Chinese business representatives coming to the United States.

Chinese diplomatic and consular representatives.

Chinese technical people coming to the United States for instruction.

Ordinary Chinese travelers coming to the United States purely for personal reasons. We believe it may be safely predicted that traffic of this nature will be greatly restricted, at least initially, because of Chinese governmental control of needed foreign currencies, if for no other reason.

In summary, it appears that passenger traffic destined to and originating in Shanghai will be of small proportions for some time to come after trade relations are resumed.

We are dealing here only with the reopening of China as a Communist country. Any speculation as to what the conditions would be if we resumed trade with China under a democratic government would appear to be far enough removed from present conditions as to be unnecessary.

In any case, the reopening of China under a regime and conditions differing from those that presently exist in China, would necessarily be preceded by a series of events which would indicate changes, and these events would be the signal for, and provide the clues to, revisions in planning for resumption of trade under different circumstances.

Resumption of trade with China would increase transpacific travel in two other respects, one of which has to do with putting our vessels into Shanghai, and the other one does not.

If our vessels were to call at Shanghai this would increase the attractiveness of the Orient cruise, even if passengers were permitted to see no more of China than Shanghai itself. Shanghai was always a great tourist attraction. Some of its bright lights and gaiety, shopping bargains, international restaurants, horseracing, dogracing, jai alai, nightclubs and orchestras will no longer be there but the inclusion of a call at Shanghai should increase demand for Orient cruise space.

The other effect of resumption of trade with China which does not have to do with putting our vessels into Shanghai, is the increased traffic that could be expected between the Canton area and the Western Hemisphere, and this traffic naturally moves through Hong Kong.

The great majority (probably at least 80 percent) of Chinese in the United States, Canada, Mexico, the Caribbean, et cetera, are Cantonese, having come from Canton or towns and villages in the vicinity of Canton. By reason of family ties and language, a trip back to China means, to them, a trip to the Canton area. Since the advent of the Communist regime in China, there has been very little travel of this sort for a number of obvious reasons. Merely the absence of diplomatic representatives alone is sufficient to deter travel due to the resulting lack of facilities to process the documents required for traveling. Even in Hong Kong, a crown colony of Great Britain with whom diplomatic relations exist with Communist China, travel to and from Canton is greatly restricted by the Hong Kong government to prevent overcrowding of the colony's limited facilities to accommodate a large population increase.

It may be assumed that resumption of trade with China would be accompanied by provisions that would allow Chinese travelers to go and come through Hong Kong, and increased traffic could be expected. Here again, it should be kept

in mind that travel originating in China may be expected to be subject to restrictions imposed by the Chinese Government in order to conserve the foreign currencies required by the traveler for his tickets and other traveling expenses. This obstacle will likely be overcome by reason of the necessary funds being supplied by relatives living in the Western Hemispere. It may also be expected that, initially, there may be some diffidence on the part of overseas Chinese to make a trip to China until they see how the new deal works; in other words, whether they would be free to leave China at will and without being subjected to financial penalties.

ADDITIONAL PASSENGER TRAFFIC UPON RESUMPTION OF TRADE WITH CHINA

For reasons outlined in the preceding paragraphs, it is believed that resumption of diplomatic relations with the Government of Communist China and the reopening of trade with that country would increase demand for transpacific passenger space, but only to a moderate extent for some years to come. We may have at some time used the phrase "resuming normal relations with China," or at any rate we may have created an impression implied by this thought. Actually, so long as China is governed by a totalitarian regime dedicated to communism of the Soviet brand and to the imposition of that way of life on the rest of the world, there can be no normal relations. In 40 years of experience with the Soviets we have not achieved normal relations.

On the basis that, if trade with China is made possible, our trade-route description and subsidy contract provide for calls at Shanghai, we may expect that our vessels will call there and receive some passenger-traffic support. For so long as we have only our present fleet it would appear that one of the principle factors which would determine the number of passengers we could handle in and out of Shanghai would be the space limitations imposed by the fact that we are presently operating near capacity.

For the effect that China traffic may have on passenger capacities in our vessel-construction plans, we need to look beyond the conditions that may be expected to follow the resumption of China trade, which latter event is itself unpredictable as to time. Two alternatives present themselves. Either to plan our future vessel capacity with no allowance for China traffic, or to include in our plans a capacity allowance for future China traffic.

At this time we believe that within the 20-year life of vessel construction now contemplated, such an allowance for future China traffic should be no more than 10 percent under optimum conditions, and in the nearer range of time, when China trade is resumed, would range from a small amount of traffic to possibly 5 percent.

SECTION NO. 3

A METHOD OF ESTIMATING WHAT THE VOLUME OF TRANSPACIFIC PASSENGER TRAFFIC WILL BE IN 1961

In this section we will develop further estimates of the volume of transpacific passenger traffic for the year 1961, the year in which our superliner or superliners may be expected to enter into the transpacific service. Herein, as elsewhere in reports on transpacific traffic, we mean passenger traffic from the Pacific coast and from Honolulu to the Orient and vice versa. The term "Orient" is intended to include Japan, Korea, China, and the Philippines plus fringe areas such as Indochina, Thailand, and Singapore.

The estimates developed in this section will be based upon certain known guidelines, such as the population of the United States, the number of United States passports issued and renewed, etc.

The table in attachment No. 5 shows population of the United States in each year since 1920. Population figures for 1920, 1930, 1940, and 1950 are official census figures. Figures for the intervening years were derived from a straight-line interpolation. Data on number of United States passports issued and renewed in each year is as compiled by the United States Department of State Passport Office. Data for the war years 1942–45 and for 1946 has been omitted as it is considered to be irrelevant.

Estimates of the volume of transpacific passenger traffic to be expected in 1961 have been submitted previously, and are also dealt with in other sections of this report. This section will develop data on 1961 traffic along different lines in order to furnish a check on the estimates previously made.

UNITED STATES PASSPORTS ISSUED, AS A GAGE OF OVERSEAS TRAVEL

The volume of United States passports issued is closely related to the volume of overseas travel, to and from the United States, whether the travel is for pleasure or for business reasons. It cannot be said that the relationship is an exact parallel, because such is not the case, however many of the underlying causes of fluctuations in the one set of figures have similar effects on the other. The following examples will show evidence of this relationship.

In the 5-year period, 1950–55, the volume of United States passports issued rose from 299,665 in 1950 to 528,009 in 1955, an increase of 76 percent. During this time total sea and air travel across the North Atlantic, a major sector of overseas travel, increased from 1,012,565 passangers in 1950 to 1,652,269 in 1955, an increase of 63 percent. Similarly, during this period total sea and air travel across the Pacific increased from 51,367 passengers in 1950 to 91,510 passengers in 1955, an increase of 78 percent.

These figures on traffic which includes both United States citizens and aliens do not tally exactly with the curve on the volume of passports issued, however the lines are sufficiently similar to indicate that the overseas travel shown does move in a volume proportionate to the volume of passports issued in the United States, and it is expected that this relationship will continue to exist.

We recognize that figures on overseas travel include the movement of aliens who are not reflected in the figures for the issuance of United States passports, however, in a general way, the volume of United States passports issued does reflect conditions which enable people to travel abroad from the United States, or induce others to travel to the United States. Economic well-being in this country promotes travel both from this country and to this country. Depression in this country has the opposite effect on both movements. A broadening of foreign areas accessible to American travelers should increase travel of United States citizens to those areas, and of aliens from those areas.

Accordingly we will endeavor to use figures on United States passports issued as a gage of travel in general and of travel in the Pacific in particular.

VOLUME OF UNITED STATES PASSPORTS ISSUED AS RELATED TO UNITED STATES POPULATION

The number of passports issued to American citizens is related to the population growth in this country. Population growth is the result of natural increase and the net immigration of aliens. Other factors enter into the relationship of United States passports issued compared with the population of this country. For example, the increasing proportion of Americans in the middle and higher income brackets (means for travel) and the increasing proportion of those in the higher age bracket (time for travel); the general upward trend of this country's economy; the broadening of relationships between this country and other countries of the world. Were it not for factors of this type, the passport volume might be expected to increase in arithmetical proportions to population growth. Because of these factors, passport volume has increased, and may be expected to increase in geometric proportion to population growth. Accordingly, in the application of this data to our projections for the future, we have an inherent built-in allowance for the effect of some of these factors.

As has been indicated, the volume of passports issued is, in general, increasing at a higher rate than our population, and this has been particularly true in the past few years. The percentage of passports to population is shown in the table in attachment No. 5 for the period 1921–55. The war years 1942–45 and the immediate postwar year of 1946 are not shown because, as stated, data for these years is not considered relevant to this study.

The table shows a slow steady climb in the percentage rate from 0.1282 in 1921 to 0.1655 in 1930. The fact that depression in the United States developed an opposite trend is shown by the decline to 0.0853 in 1933 but thereafter the rate rises steadily to 0.1303 in 1937. World War II and the events leading to it are clearly reflected in the period from 1938 onward. By 1947 the rate of passport issues to population was 0.1396 and has risen steadily since then, barring a downward jog at the time of Korea, to 0.3200 in 1955.

These figures indicate a continued rising trend if we do not have economic disasters or hostilities, and neither of these catastrophes appear to be likely at this time. We need then to estimate how much this factor may be expected to have increased by 1961 in order to develop what the 1961 passport volume will be in accordance with 1961 population.

In the postwar period from 1947 to 1955, the percentage factor, as shown in the table, rose from 0.1396 to 0.3200, an increase of 0.1804 in 8 years, or an average of 0.02255 per year. This rate of increase has been closely followed in the most recent years, as the rate of increase from 1952 (after recovering from the Korea low in 1951) to 1955 has averaged 0.02243 per year.

The latter figure, being slightly lower is used in the following calculation:

Percentage of passports issued to population, 1955	0.3200
(Annual average increase per year 0.02243.)	
Increase, 1961 over 1955, 6 years at 0.02243 per year	0.13458
Projected percentage for 1961	0.45458

In order to apply this factor, we need to examine population data.

POPULATION OF THE UNITED STATES

We have previously reported estimates of population growth in the United States, in our report No. 16 dated March 8, 1955. Since that report was made, other estimates on population have been examined, and we find that they are usually running along with, or a little ahead of, the estimates that we compiled, The population of this country in 1955 is currently estimated to have been 165 million, and by 1961 the population will be at least 179 million. Some estimates indicate that the 179 million figure will be reached by 1960, but, in any case, it should be reached by 1961, and we will base our calculations accordingly.

VOLUME OF UNITED STATES PASSPORTS IN 1961

Application of the calculations made in the preceding paragraphs indicates that the volume of United States passports in 1961 will be 0.45458 percent of 179 million or 813,698. We need now to translate this result into figures for transpacific passenger traffic in 1961.

RELATIONSHIP OF VOLUME OF UNITED STATES PASSPORTS ISSUED TO TRANSPACIFIC PASSENGER TRAFFIC

We have examined the relationship of transpacific passenger traffic figures to volume of United States passports issued in the period 1950 to 1955. In this comparison, we are not using prewar data, nor data for the immediate postwar years, because it is believed that Pacific travel is more closely related to travel in general than was the case in the past. We believe that, in the past 6-year period, Pacific travel has generally shown the result of the same influences that have affected travel in general. To demonstrate this, we show, in the table below, comparisons between passport issues, North Atlantic total sea/air travel, and transpacific total sea/air travel, 1950 to 1955. To reduce these 3 elements to a common standard for comparative purposes, an index has been compiled for each element, with a base of 100 for each of the respective 1950 figures.

Year	Atlantic passengers	Pacific passengers	Passports	Atlantic index	Pacific index	Passport index
1950	1,012,565	51,367	299,665	100	100	100
1951	1,066,733	46,090	290,407	105	90	97
1952	1,289,554	57,012	395,337	127	111	132
1953	1,414,608	60,822	418,170	140	118	139
1954	1,516,504	73,362	452,049	150	143	151
1955	1,652,269	91,510	528,009	163	178	176

It will be seen that the level of travel to and from the Orient lagged behind the general index of passports issued, and lagged behind Atlantic travel, until 1955, when Pacific travel pulled ahead of both of the other indexes. While the Pacific-travel index exceeded the other two indexes in only the 1 year, nevertheless, we believe that this is significant and indicative of the future. The combined effect of new facilities for transpacific travel, such as the addition of new ships with more capacity to offer and with a better variety of capacity to offer; the efforts of the Pacific Area Travel Association to promote Pacific travel, the shift to the West of United States population—factors such as these entitle us to look for an added growth factor in transpacific traffic.

In order to estimate this growth factor, we show in the table following a percentage relationship between passports issued and total Pacific travel, 1950–55. We may again note that it is recognized that Pacific-travel figures include aliens as well as citizens; however, as noted previously, we believe that influences underlying increases and decreases are, in a general way, common to both the passport figures and the traffic figures.

Year	United States passports	Transpacific traffic	Percentage
1950	299,665	51,367	17.14
1951	290,407	46,090	15.87
1952	395,337	57,012	14.42
1953	418,170	60,822	14.54
1954	452,049	73,362	16.23
1955	528,009	91,510	17.33

The net growth of the above percentage factor, from 1950 to 1955, is small, amounting to 0.19 in 5 years, or 0.038 per year. In the most recent years, the rise has been greater. Examining the 1952–55 period, as we did in the case of passports versus population, we find that the increase in the factor shown in the above table averaged 0.97 per year. The indicated growth factor in the Pacific lies somewhere between these two figures, insofar as the volume of Pacific travel is related to the volume of United States passports issued.

Even without the stimulus of the added facilities of air-tourists service in 1954, the 1953 factor of 14.54 had already shown an advance of 0.12 over the 1952 factor of 14.42, which was the low point resulting from withdrawal of the trooper capacities after 1950 and the effect of the Korea incident.

We believe that by 1961 the average increase will have been a minimum of 0.20 per year. On this bases, the estimate of 1961 transpacific traffic can be related to passport volume, as follows:

	Percent
1955 factor	17.33
Increase in 6 years, 6 times 0.20 percent	1.20
1961 factor	18.53

We now have a formula for estimating 1961 traffic.

ESTIMATE OF 1961 TRANSPACIFIC PASSENGER TRAFFIC

In accordance with the theory developed in this section, and the application of the factors developed in this discussion, we derive a figure for 1961 transpacific pasenger traffic of 150,778 pasengers. Detail of the calculations producing this figure are as follows:

Estimated 1961 population of the United States	179,000,000
Factor for relating passport issues to population	0.0045458
Projected volume of passports	813,698
Factor for relating transpacific travel to passports	0.1853
Projected volume of transpacific travel	150,778

There is, of course, room for disagreement with the exact factors used in arriving at this estimate; however, we believe there is validity in the general principles involved. Allowance has not been made for unknown and unforeseen catastrophes; however, a feature of the estimate is that it is the result of dealing, to some extent, with averages, and that actual figures from year to year vary above and below the trend without detracting from the validity of the predicted average.

It may be noted that the figures derived by the method used in this section agree closely with other calculations regarding the volume of transpacific passenger traffic to be expected in 1961.

SECTION NO. 4. DIVISION OF TRANSPACIFIC PASSENGER TRAFFIC BETWEEN SURFACE LINES AND AIRLINES

AIRLINES PERFORMANCE IN THE PACIFIC

From the start of transpacific air service until December 7, 1941, the total number of passengers crossing the Pacific by air was 2,337—a very small fraction of the total travel. After the war the airlines got off to a slow start in reverting equipment to commercial operations and in 1947 the total air carryings across the Pacific amounted to some 7,000 passengers. By 1948 air traffic had risen to 17,000 and has risen rapily since to over 62,000 in 1955 as shown in tables attached.

In recent years, the airlines' share of total commercial traffic across the Pacific has risen from 52 percent in 1951 to 68 percent in 1955. It is to be noted, however, that the airlines' share of 52 percent in 1951 moved only to 54 percent in 1952, and was again 54 percent in 1953.

EFFECT OF AIR TOURIST CLASS

In section No. 1 of this report we estimated that, without the introduction of air tourist class, the transpacific airlines' carryings in 1954 could have been expected to be about 36,000 passengers and in 1955 about 40,000. On the basis of ship capacities being as they were in those 2 years, and on the assumption that there was no air touist service in the Pacific, the division of traffic between sea and air carriers would be:

Year	Sea		Air	
	Passengers	Share	Passengers	Share
		Percent		*Percent*
1954	28,000	44	36,000	56
1955	29,000	42	40,000	58

These theoretical approximate figures indicate in some degree the relative drawing power of the airlines as air carriers and their drawing power as the furnishers of a middle price passage not available on the ships.

Put in another way, by the time the air carriers reached a penetration of total transpacific traffic of 54 percent in 1952, the surface carriers were operating at near capacity. Total travel in 1953 was 7 percent greater than in 1952, but the air/sea division of traffic remained the same in 1953 (54 percent air, 46 percent sea) as it had been in 1952. However, by 1953 surface carriers were operating close to capacity; thereafter the airlines have captured the new traffic engendered by the air tourist service plus the natural increase in traffic, and the quantity of traffic (as opposed to the share of traffic) being carried by the surface carriers has remained the same. This would indicate that the airlines' drawing power was about 55 percent of the total, without the benefit of air tourist, and it would seem that this balance might be expected to be restored, if and when the sea carriers provide sufficient accommodations to meet the demand for ship space and of the types wanted by the traveling public.

AIRLINES SHARE OF ATLANTIC PASSENGER TRAFFIC

In the North Atlantic trade, the price range of classes of accommodations offered by the carriers, and the volume of sea/air capacities available, have given the traveler sufficient choice to avoid the degree of distortion in traffic patterns that has existed for the last few years in the Pacific. The volume of waiting lists for passage in the *President Cleveland/Wilson* is sufficient evidence that more passengers would travel across the Pacific by sea, if they could obtain accommodations. Also the absence of a middle class of accommodation in our liners

has diverted traffic to other means of travel more nearly suited to their desires in the matter of cost, such as freighters and air tourist.

The division of Atlantic traffic may be taken to more nearly represent the travelers' choice on a purely sea versus air basis. North Atlantic passenger traffic has been divided between the sea and air carriers as follows:

[Percent]

Year	Air	Sea	Year	Air	Sea
1948	29	71	1952	35	65
1949	29	71	1953	37	63
1950	31	69	1954	38	62
1951	32	68	1955	42	58

During the summer season the Atlantic surface carriers could undoubtedly handle more tourist class passengers than they do, if they had additional tourist class capacity. However, in a general way, we believe that the percentages shown give a reasonably representative picture of the public's past and present views regarding air versus sea transocean travel. It is to be noted that travel by air has been steadily increasing in favor. Here again, in the Atlantic, air tourist class has left its mark on the traffic pattern. Unlike the Pacific carriers, the Atlantic surface carriers have, in the period under review, always offered a tourist class service. The airlines introduced air tourist in the Atlantic trade in 1952. From 1948 to 1951 the airlines' penetration of Atlantic travel rose from 29 to 32 percent, an increase of 3 percent in 4 years, or less than 1 percent per year. In the next 4-year period, 1951 to 1955, the airline penetration rose from 32 to 42 percent, an increase of 10 percent in 4 years, or 2½ percent per year. The effect of the air tourist class is plainly visible in these figures.

COMPARISON OF ATLANTIC TRAFFIC PATTERN WITH THE PACIFIC

These Atlantic figures may not be directly applied to the Pacific. In crossing the Atlantic where there is a choice of using a day for travel by plane compared with 5 days by fast ship, the relative time differential does not favor the plane to the same extent as it does in the Pacific where distances are so much greater. We can tend to narrow this difference, however, when we put transpacific liners into operation on schedules of 26 knots or better.

Also we do have a factor favoring ship travel in the Pacific which does not exist in the Atlantic. In the Atlantic, both the ship and the plane (regardless of the relative merits and attractions each has to offer) are purely a means of getting from point A to point B. In the Pacific, so far as it concerns cruise travelers, we offer a combination of a means of crossing the Pacific to the Orient, plus a visit to the ports in the Orient at which we call, all in the same voyage.

We will now examine the known results of air penetration in the relatively open market of Atlantic travel against what might be expected in the Pacific under similar conditions, that is with both sea and air carriers in the Pacific furnishing space of a type and quantity to cater to demand. We previously estimated that without air tourist services and with the limited sea capacities available in 1954 and 1955, air traffic in the Pacific could have been expected to be 36,000 and 40,000 passengers respectively. We have advanced the theory that the additional 9,000 passengers who traveled by air in 1954 and the additional 23,000 who traveled by air in 1955 did so because of the tourist class price. When it comes to comparing air versus sea we will not claim that these 9,000 and 23,000 passengers would have all traveled by ship tourist class had such accommodations been available by ship and not available by air, because some of them may not have had the time required for the longer trip involved in sea travel. However, since price appears to have been a major factor we will compare what the results would have been if tourist class had been available on both sea and air and we will assume that they would have patronized the two types of carrier in the same proportion.

In round figures, results would have been:

	1954		1955	
	Passengers	Percent	Passengers	Percent
Sea	32,500	45	40,500	44
Air	40,500	55	51,500	56
Total	73,000		92,000	

Opinions may vary this division one way or the other with resulting changes in the percentages, but it is indicated that the surface carriers, if they were in a position to supply capacity sufficient and suitable to demand, would now be carrying about 44 percent of the transpacific traffic. A factor which tends to confirm the validity of this theory is the comparison with what has actually taken place in the Atlantic. A further factor tending toward confirmation is the resemblance to the trend that existed in the Pacific when the airlines were competing without tourist-class space to offer. Air share in recent years would thus have been:

	Percent
1951 (actual)	52
1952 (actual)	54
1953 (actual)	54
1954 (computed)	55
1955 (computed)	56

JET PLANES

The Tokyo Shipping Gazette of May 28, 1956, states that the 4 new DC–8 jet planes ordered by Japan Air Lines from Douglas Aircraft Co. for delivery the latter part of 1960 will have a normal cruising speed of 550 miles per hour and a top cruising speed of 580 miles per hour with a range of 6,720 miles, easily capable of nonstop flight between San Francisco and Japan. It is stated that seating arrangements will be varied according to the airline's requirements with standard first class DC–8 cabins containing from 118 to 122 seats and all tourist cabins containing up to 144 seats.

This, then, may be typical of the kind of air service that will be available across the Pacific in 1961, and we believe that the air share of traffic at that time may be expected to be higher, because of the higher speed and consequently shorter transit time of the jet planes. We computed that as of 1955 the sea carriers' share would be 44 percent of the total traffic if able to compete capacitywise and classwise, as we believe will be the case when our new liner construction is in service. We believe that the surface carriers should obtain 40 percent of the transpacific passenger traffic in 1961 with all due allowance for jet plane service.

When both the air and the surface carriers offer capacities and types of passenger space suited to demand we should arrive at a point where there will be a fairly steady balance between air and sea traffic. As transpacific passenger traffic continues to grow, and there is every indication that this should be so, it appears reasonable to expect that ships will be able to compete successfully in period of time following 1961 for a share of from 40 to 35 percent of total traffic. Mr. Birger Nordholm, chairman of the European Travel Commission, speaking at a recent meeting of travel industry leaders in New York, in discussing the role of airplanes in overseas travel, said:

"Fortunately for the steamship lines, there are still countless travelers, myself included—and I am sure there always will be—who have the time and the inclination to enjoy transportation on the surface of the ocean in good company, with service and food of the finest resort quality and with fresh air and sunshine, rest and relaxation combined; it is safe to conclude that the steamship lines will certainly more than hold their own in the future picture."

Mr. Joseph Mayper, chairman of the Trans-Atlantic Passenger Conference, speaking at the same meeting made the following remarks:

"The steamship lines have tried to keep pace with the constantly increased demand for accommodations and have placed considerable additional tonnage in service. Six years ago they operated some 50 passenger ships in transatlantic service; at the end of 1955 the number had grown to 73. Several new ships will commence to operate in time to meet the heavy spring and summer demand this year. Still other ships are scheduled to be placed in service in 1957, and additional new tonnage is presently in the blue-print stage.

"Within the next few years, it is anticipated that at least 10 new passenger liners will be in service and will provide accommodations for many additional thousands of transatlantic passengers.

"It is obvious that the management of our lines have deep faith that the demand for transatlantic travel by ship will continue in the years ahead. Otherwise they would not make the substantial long-term investments required for new tonnage. The fact that a number of these lines have operated such passenger services for decades—a few of them for over a century—and have international reputations of conservative responsibility, lends emphasis to this faith."

SEA PORTION OF 1961 TRANSPACIFIC PASSENGER TRAFFIC

In this section we have estimated that the surface carriers could obtain 40 percent of the 1961 passenger traffic across the Pacific. Elsewhere we have estimated total transpacific passenger traffic in 1961 at a minimum of 150,000 passengers. Surface carriers could accordingly obtain 60,000 passengers in 1961.

AIR PORTION OF 1961 TRANSPACIFIC PASSENGER TRAFFIC

The estimates derived in this section produce a 1961 transpacific air passenger figure of 90,000 passengers. This will now be compared with a forecast regarding overseas air travel to and from the United States prepared by the Civil Aeronautics Administration entitled "Staff Study, Civil Air Traffic Forcasts, 1960–65." In this study the CAA forecasts 5,250,000 passengers in the international (overseas to and from the United States by American and foreign airlines) field for 1961. This compares with actual figures, shown in the study, of 2 million passengers in 1951; 2,400,000 in 1952; 2,700,000 in 1953 and 2,800,000 in 1954. Comparing these figures with airlines performance in the Pacific, and converting both sets of figures to an index where the 1951 base equals 100 we find a degree of uniformity—

Year	Transpacific air traffic		Total international traffic	
	Passengers	Index	Passengers	Index
1951	23,999	100	2,000,000	100.0
1952	30,959	129	2,400,000	120.0
1953	32,851	137	2,700,000	135.0
1954	45,412	189	2,800,000	140.0
1961			5,250,000	262.5

It will be noted that the degree of increase in transpacific air traffic does not vary greatly from the degree of increase in total overseas traffic, except that the impact of tourist-class fares introduced in the Pacific in 1954 is visible.

One method of relating this Civil Aeronautics Authority forecast for 1961 to the Pacific would be to apply the 262.5 index to the Pacific column, shown above, and this would give a 1961 Pacific air travel figure of 63,000 passengers.

Another method would be to start with 1954 (the latest year for which actual figures are shown in the CAA study), calculate the rise in total overseas travel forecast by CAA, and apply that percentage to the 1954 Pacific air figures. This results in a calculated forecast of 85,000 air passengers in the Pacific in 1961.

We believe that these methods of comparison, rough as they are, tend to confirm that we have gone sufficiently high in calculating the airlines share of transpacific passenger traffic at 90,000 passengers in 1961.

SECTION NO. 5. NEW JAPANESE LINERS AND SUFFICIENCY OF TRAFFIC FOR SEA CARRIERS

JAPANESE LINERS

In section No. 4 we estimated the level of transpacific passenger traffic available to surface carriers in 1961 would be 60,000. For several years the press has carried news items referring to the proposed Japanese passenge liners for the transpacific service. Several times, attempts have been made to include appropriations in Japanese Government budgets for the funds needed to make the construction of these liners possible but other projects considered more pressing have taken precedence, such as construction of cargo ships and the purchase of airplanes.

The general feeling is that eventually some Japanese transpacific passenger liners will be built for reasons of national prestige if for no other, and that the NYK. will be the line which will operate them. There are of course other cogent reasons why we may expect Japanese passenger liner competition. Traditionally the Japanese have operated transpacific liners. The *Asama Maru* and her two sister ships compared well with the best in the Pacific. There is also the considerable traffic of persons of Japanese race who travel between the United States and Honolulu and Japan. It may be expected that Japanese liners would be well patronized by Japanese nationals. American travelers, too, have not been unfavorably disposed toward travel on foreign-flag ships. The foreign lines do not overlook the selling feature of advertising that your visit abroad begins with passage by a foreign-flag carrier. For examples ready to hand, Sabena Air Lines advertises "Continental service"; Japan Air Lines advertises "Your clients enjoy a gay preview of Japan's customs, color, and traditional hospitality," etc.

The number of Japanese liners proposed for the Pacific is usually referred to as 2, although references have been made to 3 ships of approximately 26,000 tons each. There were some indications that it might be possible that the Japanese Government would include funds in the budget this year for the construction of 1 ship to be followed by 1 or 2 additional ships as funds are made available by the Japanese Government in subsequent years. It was indicated that the capacity would be 150 first class and 300–400 tourist class, and that the ships would have a speed of 21–22 knots. A letter from our Japan headquarters mentions Japanese plans to have vessels capable of crossing the Pacific in 10 days. This sounds like 26-knot vessels.

In order to calculate the passenger-lifting capacity of the proposed liner operation under the NYK flag we would need to know their capacity, itinerary, and voyage length as a result of speed capability so as to establish number of voyages per year, number of vessels, etc. In the absence of certain knowledge of the answers to any of these we will assume the following:

Number of ships, 2
Itinerary: San Francisco, possibly Los Angeles, Honolulu, Yokohama, Kobe—Yokohama, Honolulu, San Francisco
Capacity: First class, 150; tourist class, 400
Number of voyages per year per ship, 10
Average percentage of occupancy, transpacific: first class, 75 percent; tourist class, 70 percent

Based upon these assumptions, these Japanese liners could carry the following transpacific passenger traffic:

First class, 150 times 2 for round trip (300 at 75 percent)	225
Tourist class, 400 times 2 for round trip (800 at 70 percent)	560
Total, first class and tourist class	785
785 passengers per voyage times 10 voyages per year	7,850
7,850 passengers times 2 for 2 ships	15,700

On this basis, the NYK with 2 passenger liners, could carry 15,750 transpacific passengers per year.

DIVISION OF TRANSPACIFIC SEA TRAFFIC AMONG THE SEA CARRIERS

Cargo liners

We may safely assume that the transpacific trade will continue to be served by passenger-carrying freighters, cargo vessels with capacity for a few passengers up to a total of 12. Before World War II, there was comparatively little of this type of service in the Pacific, but since the war, there have been many such ships, United States flag as well as foreign flag. In the aggregate, their carryings have been substantial. Our records indicate that the total transpacific movement on vessels of this type in recent years has been as follows:

	Passengers
1951	4,469
1952	6,941
1953	8,110
1954	7,437
1955	7,268

A good many passengers are now traveling on freighters because these vessels offer the nearest approach presently available to tourist class in the matter of price. Cost of passage is a very important factor in the case of many passengers, as for example, missionary traffic. When we operated three-class ships, prior to World War II, our tourist class was well patronized by missionaries. Only a few of the missionary societies continued to purchase first-class tickets after we introduced a tourist class in the early 1930s. Such passengers as these do not patronize freighters because they are freighters, but would in fact prefer to travel on liners if medium priced accommodations were provided on the liners. They would prefer to travel on liners because of the amenities available on liners, not the least of which is the presence on the latter of doctors and facilities for medical attention.

With the introduction of good, fairly priced middle-class accommodations on our liners, as we understand is contemplated, a good portion of the traffic now moving by freighters will switch over to the liners. We may estimate that the freighters will retain no more than 50 percent of the passenger traffic they now enjoy, or in round figures, 4,000 passengers in 1961.

Events may prove that passenger traffic by freighters, in 1961, will be in greater volume than the 4,000 passengers mentioned above; however, the additional traffic will consist of passengers whose chief desire is to travel by a cargo vessel, and who are not now traveling at all because they cannot get this type of passage.

Hikawa Maru

We will assume that the *Hikawa Maru* continues in the NYK service to the Pacific Northwest. Judging by the performance of this modestly converted prewar vessel since she reentered service in 1953, 2,000 passengers a year would appear to be sufficient allowance for her share of traffic.

Estimated transpacific passenger traffic potential is sufficient for tonnage contemplated

According to the above paragraphs, the NYK liners, if built and in service by 1961, may carry 15,700 transpacific passengers a year; the NYK *Hikawa Maru* in the Pacific Northwest service 2,000; the freighters 4,000. These services would carry a combined total of 21,700 transpacific passengers annually. Deducting this from the level of total sea traffic predicted, of 60,000 passengers, leaves 38,300 to be accommodated.

There appears to be sufficient passenger traffic potential to justify the operation of our new superliner along with the *President Cleveland* and *President Wilson.*

Section No. 6. Characteristics of New Vessel Construction

SPEED

Questions have been raised regarding the effect of speed as regards attracting passenger traffic. There is no more convincing demonstration of the fact that speed does attract traffic support than the experience of the airlines. A long trip where one's quarters are confined to a plane seat cannot be described as comfortable. What the airplane does offer is speed, and a sufficiently large number of travelers have indicated their preference for this feature of transportation. It may be argued that the disparity between the speed of a plane and that of a ship is so great that any comparisons between these two modes of travel in terms of speed would not be useful. In general this is undoubtedly true, however, there must be a segment of traffic that weighs the relative attraction of traveling to destination by a means which features speed or by a means which features comfort. We cannot believe that transocean travelers are divided into two groups of which one group would invariably decide to travel by the fast planes and the other group invariably decide to travel by the comfortable ships. Some portion of this traffic is competitive. If the surface carriers, providing the comfort, can also provide a faster passage, it must increase their prospects of success in competition. We do not believe that there is a method of calibrating this in terms of numbers of passengers per additional knot of speed and in any case this is probably not the deciding factor in determining speed in proposed vessel design.

The following factors would appear to be of greater importance:

The faster vessel allows greater utilization of vessel capacity which results from shorter voyage lengths and more voyages per year.

There is the necessity to plan for vessels that will be at least the equal of those that may be put in service by foreign-flag operators, and preferably, to have something better than the other fellow. No one knows definitely what the Japanese will do, but our latest information regarding Japan's plans for transpacific liners mentions an intention to have ships capable of making the passage across the Pacific in 10 days. Sample schedule for APL's 26-knot-type ship shows 10 days elapsed time between San Francisco and Yokohama, so it appears that we are equaling the intentions of the Japanese based on the admittedly fragmentary evidence we have. It should also be pointed out that a representative of the NYK recently indicated that he believed ships of 21 or 22 knots are the most acceptable and practical. On the little evidence available regarding Japan's plans we may be equaling them in contemplating 26-knot speed for our new construction, or we may be bettering them, and of the two possibilities the latter would be more desirable.

Attachment No. 1. Transpacific Passenger Traffic

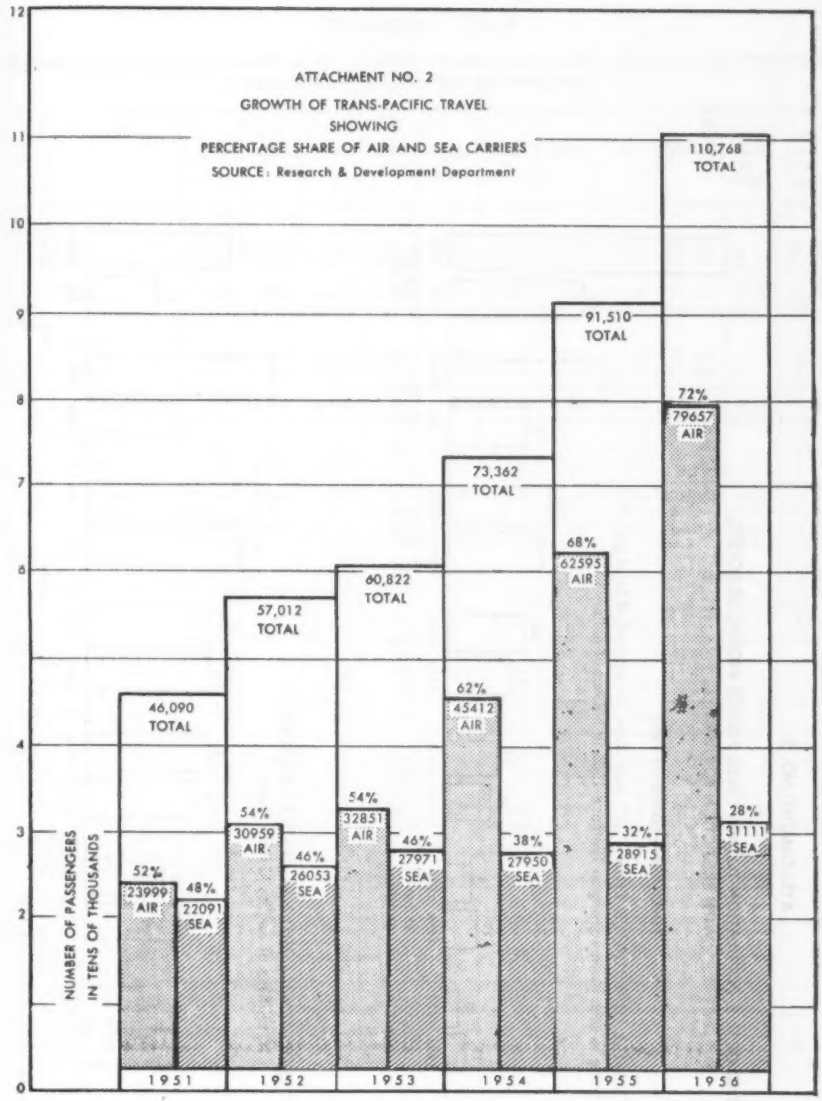
Number of passengers carried by commercial ships and scheduled commercial airlines from Pacific coast and Honolulu to the Orient and from the Orient to Honolulu and the Pacific coast. Local traffic between the Pacific coast and Honolulu is not included. (Orient in these tables includes Japan, Korea, China, Hong Kong, Philippines, Indochina, Thailand, and Malaya.)

	1951	1952	1953	1954	1955	1956
BY SEA						
Liners:						
First class/cabin class:						
American President Lines	5,517	6,809	6,677	7,040	7,612	8,079
Foreign-flag lines			141	428	509	601
Total	5,517	6,809	6,818	7,468	8,121	8,680
Tourist class: Foreign flag					40	90
Third class:						
American President Lines	12,105	12,303	12,400	11,666	11,859	13,012
Foreign-flag lines			643	1,379	1,627	1,949
Total	12,105	12,303	13,043	13,045	13,486	14,961
Total, liner, all classes	17,622	19,112	19,861	20,513	21,647	23,731
Freighters:						
Other United States-flag lines	2,513	3,075	3,645	2,755	2,610	2,690
American President Lines	603	658	768	633	617	558
Total, United States-flag freighters	3,116	3,733	4,413	3,388	3,227	3,248
Foreign-flag freighters	1,353	3,208	3,697	4,049	4,041	4,132
Summary:						
Liners	17,622	19,112	19,861	20,513	21,647	23,731
United States-flag freighters	3,116	3,733	4,413	3,388	3,227	3,248
Foreign-flag freighters	1,353	3,208	3,697	4,049	4,041	4,132
Total	22,091	26,053	27,971	27,950	28,915	31,111
BY AIR						
First class:						
United States flag	16,759	23,916	25,550	20,457	21,239	24,943
Foreign flag	7,240	7,043	7,301	4,420	3,464	5,327
Total	23,999	30,959	32,851	24,877	24,703	30,270
Tourist class:						
United States flag				14,202	26,248	33,021
Foreign flag				6,333	11,644	16,366
Total				20,535	37,892	49,387
First and tourist class combined:						
United States flag	16,759	23,916	25,550	34,659	47,487	57,964
Foreign flag	7,240	7,043	7,301	10,753	15,108	21,693
Total	23,999	30,959	32,851	45,412	62,595	79,657

SUMMARY

By sea	22,091	26,053	27,971	27,950	28,915	31,111
By air	23,999	30,959	32,851	45,412	62,595	79,657
Total, transpacific	46,090	57,012	60,822	73,362	91,510	110,768
Percent by air	52	54	54	62	68	72
Percent by sea	48	46	46	38	32	28
American President Lines' percent of sea traffic	82	76	71	69	69	70
American President Lines' percent of total sea-air traffic	40	35	33	26	22	20

NOTE.—1956 data added Jan. 2, 1958.

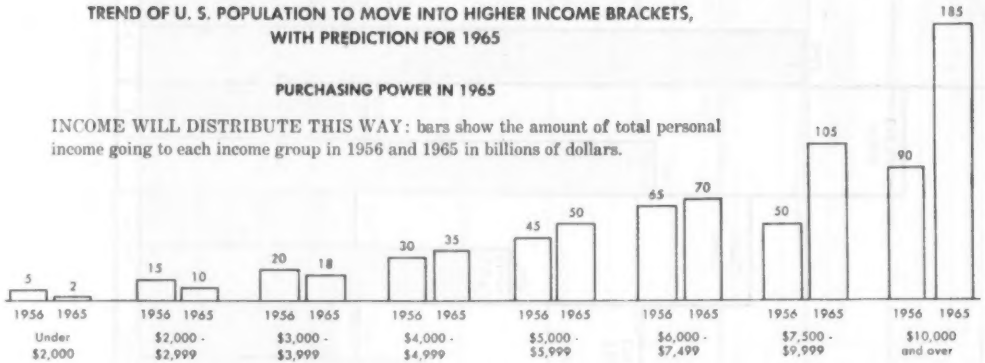

ATTACHMENT NO. 2
GROWTH OF TRANS-PACIFIC TRAVEL
SHOWING
PERCENTAGE SHARE OF AIR AND SEA CARRIERS
SOURCE: Research & Development Department
NUMBER OF PASSENGERS IN TENS OF THOUSANDS
0
2
3
4
6
7
8
9
10
11
12
46,090 TOTAL
52%
23999 AIR
48%
22091 SEA
57,012 TOTAL
54%
30959 AIR
46%
26053 SEA
60,822 TOTAL
54%
32851 AIR
46%
27971 SEA
73,362 TOTAL
62%
45412 AIR
38%
27950 SEA
91,510 TOTAL
68%
62595 AIR
32%
28915 SEA
110,768 TOTAL
72%
79657 AIR
28%
31111 SEA
1951
1952
1953
1954
1955
1956

ATTACHMENT NO. 3

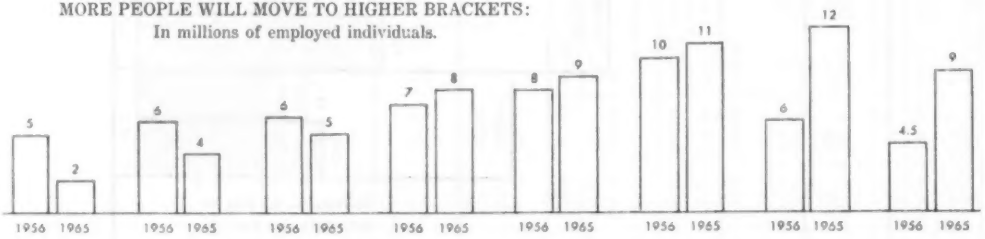
TREND OF U. S. POPULATION TO MOVE INTO HIGHER INCOME BRACKETS, WITH PREDICTION FOR 1965

PURCHASING POWER IN 1965

INCOME WILL DISTRIBUTE THIS WAY: bars show the amount of total personal income going to each income group in 1956 and 1965 in billions of dollars.



MORE PEOPLE WILL MOVE TO HIGHER BRACKETS:
In millions of employed individuals.



Source: Nation's Business, June 1956

ATTACHMENT No. 4

Total travel between continental United States and Asia, 1930–37, by countries (excluding third-class passengers)

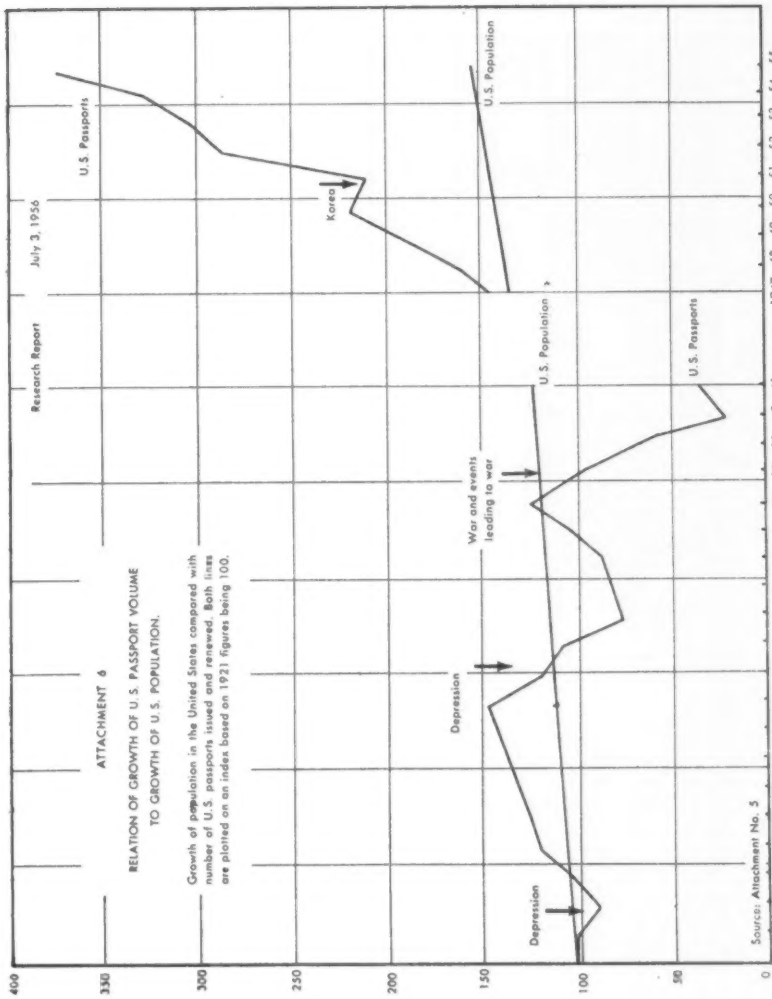
	1930	1931	1932	1933	1934	1935	1936	1937	Total	Percent of total	Annual average
Japan:											
To	3,747	3,261	2,722	2,708	3,590	3,674	4,173	4,299	28,174	------	3,522
From	4,232	3,574	2,667	2,618	3,757	4,508	4,793	5,927	32,076	------	4,009
Total	7,979	6,835	5,389	5,326	7,347	8,182	8,966	10,226	60,250	41.3	7,531
China:											
Shanghai:											
To	1,457	1,398	1,425	1,608	2,060	2,213	1,920	1,379	13,460	------	1,682
From	1,719	1,808	1,691	1,713	2,625	2,765	2,783	2,130	17,234	------	2,154
Total	3,176	3,206	3,116	3,321	4,685	4,978	4,703	3,509	30,694	21.1	3,836
Hong Kong:											
To	936	1,015	764	639	712	1,144	1,522	1,570	8,302	------	1,038
From	1,782	1,215	1,240	712	929	984	975	1,375	9,212	------	1,152
Total	2,718	2,230	2,004	1,351	1,641	2,128	2,497	2,945	17,514	12.0	2,190
Total China	5,894	5,436	5,120	4,672	6,326	7,106	7,200	6,454	48,208	33.1	6,026
Philippines:											
To	1,711	2,203	1,749	1,778	3,052	3,551	2,840	3,362	20,246	------	2,531
From	964	1,094	1,482	1,204	1,534	1,836	1,659	1,978	11,751	------	1,469
Total	2,675	3,297	3,231	2,982	4,586	5,387	4,499	5,340	31,997	22.0	4,000
Java:											
To	18	21	10	14	14	19	14	8	118	------	15
From	29	7	9	4	12	25	21	28	135	------	17
Total	47	28	19	18	26	44	35	36	253	.2	32
Straits Settlements:											
To	357	247	100	101	91	82	75	112	1,165	------	146
From	214	94	116	132	130	86	128	84	984	------	123
Total	571	341	216	233	221	168	203	196	2,149	1.5	269
Thailand:											
To	------	------	------	------	------	------	------	------	------	------	------
From	------	4	------	------	1	------	------	5	10	------	1
Total	------	4	------	------	1	------	------	5	10	------	1
India:											
To	116	111	90	43	91	125	140	118	834	------	104
From	51	59	143	182	232	222	231	129	1,249	------	156
Total	167	170	233	225	323	347	371	247	2,083	1.4	260
Indochina:											
To	2	------	------	1	1	------	5	------	9	------	1
From	------	------	------	1	------	------	------	------	1	------	------
Total	2	------	------	2	1	------	5	------	10	------	1
Ceylon:											
To	77	103	14	6	20	16	18	18	272	------	34
From	84	39	52	34	28	29	10	34	310	------	39
Total	161	142	66	40	48	45	28	52	582	.4	73
Miscellaneous: New Guinea, Macassar, Celebes, Sumatra, etc	2	5	11	5	6	32	21	16	98	.1	12
Grand total	17,498	16,258	14,285	13,503	18,885	21,311	21,328	22,572	145,640	100.0	18,205

ATTACHMENT No. 5

Population growth and growth of volume of United States passports issued and renewed for overseas travel

Year	United States population	United States passports	Passports as percent of population	Population index	Passport index
1920	105,710,620				
1921	107,417,063	137,685	0.1282	100.0	100.0
1922	109,123,506	137,551	.1261	101.6	100.0
1923	110,829,949	125,656	.1062	103.2	91.3
1924	112,536,392	146,378	.1301	104.8	106.3
1925	114,242,835	172,209	.1507	106.3	125.1
1926	115,949,278	176,033	.1518	107.9	127.8
1927	117,655,721	182,425	.1550	109.5	132.5
1928	119,362,164	189,308	.1586	111.1	137.5
1929	121,068,607	196,930	.1622	112.7	143.0
1930	122,775,046	203,174	.1655	114.3	147.6
1931	123,664,469	163,404	.1321	115.1	118.7
1932	124,553,892	153,218	.1230	115.9	111.3
1933	125,443,315	106,991	.0853	116.8	77.7
1934	126,332,738	111,673	.0884	117.6	81.1
1935	127,222,161	118,101	.0928	118.4	85.8
1936	128,111,584	141,996	.1108	119.3	103.1
1937	129,001,007	168,016	.1302	120.1	122.0
1938	129,890,430	134,737	.1037	120.9	97.9
1939	130,779,853	89,850	.0687	121.7	65.3
1940	131,669,275	26,253	.0199	122.6	19.1
1941	133,572,084	49,757	.0373	124.3	36.1
1947	144,988,938	202,424	.1396	135.0	147.0
1948	146,891,747	230,435	.1569	136.7	167.4
1949	148,794,556	268,863	.1807	138.5	195.3
1950	150,697,361	299,665	.1988	140.3	217.6
1951	153,557,889	290,407	.1891	142.9	210.9
1952	156,418,417	395,337	.2527	145.6	287.1
1953	159,278,945	418,170	.2625	148.3	303.7
1954	162,139,473	452,049	.2788	150.9	328.3
1955	165,000,000	528,009	.3200	153.6	383.5

Source: United States Population—Bureau of Census 1920, 1930, 1940, 1950. Intervening years interpolated. Passports—Department of State Passport Office.

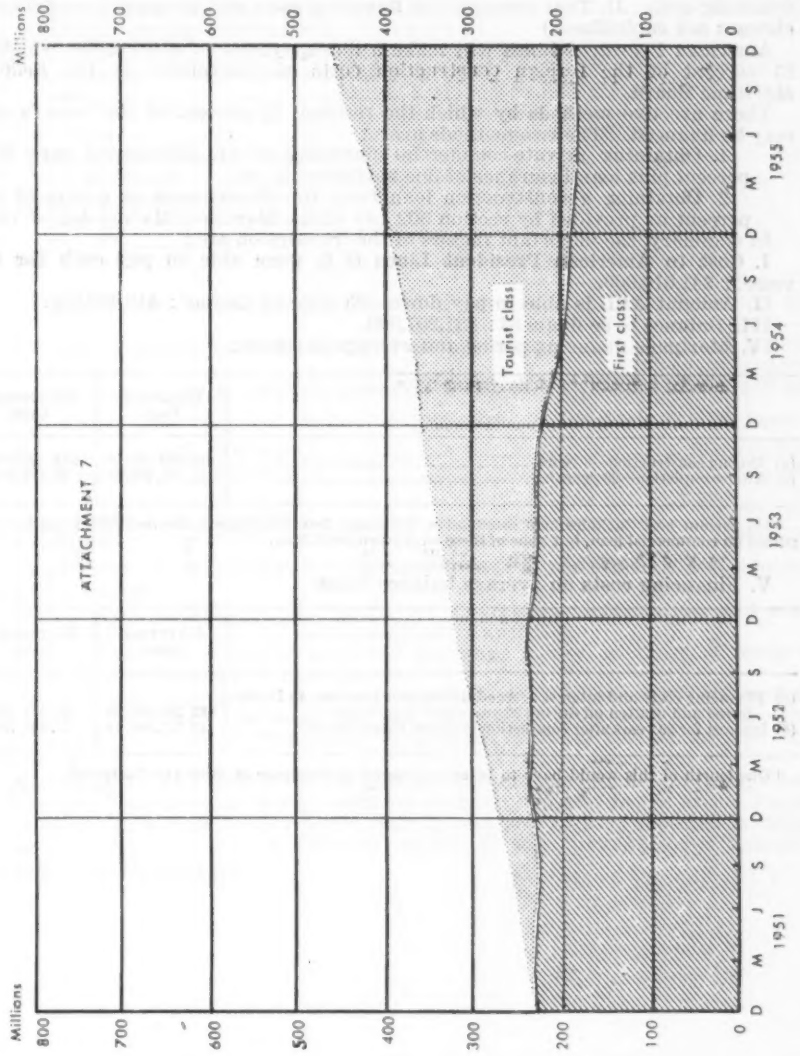

ATTACHMENT 6
RELATION OF GROWTH OF U.S. PASSPORT VOLUME
TO GROWTH OF U.S. POPULATION.
Growth of population in the United States compared with number of U.S. passports issued and renewed. Both lines are plotted on an index based on 1921 figures being 100.
Research Report
July 3, 1956
U.S. Passports
Korea
U.S. Population
War and events leading to war
Depression
Depression
U.S. Population
U.S. Passports
Source: Attachment No. 5
400
350
300
250
200
150
100
50
0
1921 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 1947 48 49 50 51 52 53 54 55

ATTACHMENT NO. 7. GROWTH OF OVERSEAS AIR TRAVEL AND EFFECT OF AIR TOURIST SERVICES

(Revenue passenger ton-miles of traffic carried)

Chart covers passenger traffic carried by American and foreign air lines between United States (and its possessions) and foreign countries, except Canada. Also includes passenger traffic between continental United States and United States possessions as well as traffic between United States possessions.

SCHEDULED SERVICE OF CERTIFICATED AIR CARRIERS



Source: Monthly Report of Air Carrier Traffic Statistics, January 1956, Civil Aeronautics Board, Office of Carrier Accounts and Statistics, chart III–B, p. 4.

NOTE.—Revenue passenger ton-mile is defined as 1 ton of revenue passenger weight (including free baggage) transported 1 mile.

APPENDIX D

FINANCIAL ASPECTS

(NOTE.—The following computations have assumed for purposes of clarity in comparison: A. That mortgage would be equal to 75 percent of physical construction costs; B. That in case of private financing, APL will borrow 100 percent of construction financing costs against 20-year serial repayment; C. That in case of Government financing, APL will borrow no portion of construction financing costs; D. That construction financing costs will be treated as deferred charges not capitalized.)

American President Lines will make a downpayment of $10,402,500, which is 25 percent of the foreign construction costs as determined by the Federal Maritime Board.

There are two methods by which the residual 75 percent of the vessel's cost may be financed. The two methods are:

1. Obtaining private-commercial financing at an anticipated rate of 5 percent plus loan insurance of one-half percent, or

2. Obtaining a construction loan from the Government at a rate of 3½ percent as provided by section 502 (c) of the Merchant Marine Act of 1936.

In summary, the important factors of the transaction are:

I. Cost to American President Lines if it were able to pay cash for the vessel: $41,610,000.

II. Amount APL is able to pay down—25 percent thereof: $10,402,500.

III. Balance to be financed: $31,207,500.

IV. Mortgage financing period and average balances:

	5½ percent basis	3½ percent basis
(a) During construction—3 years	$14,000,000.00	$14,000,000.00
(b) After completion—20 years [1]	17,556,262.50	16,383,937.50

[1] 5½ percent basis includes loan commission, brokerage, fees, interest, etc. accrued during construction period on commercial loan, but none of these on Government loan.

V. Financing costs on average balance basis:

	5½ percent basis	3½ percent basis
(a) Financing costs and interest accrued during construction; to be deferred and written off during 20 years after completion	[1] $2,233,000.00	$1,421,000.00
(b) Interest for 20 years after completion (average balance basis)	19,311,888.75	11,468,756.25

[1] One-fourth of this would have to be on uninsured 2d mortgage or otherwise borrowed.

VI. Owner's average annual investment over 20-year period—not including use of part of downpayment during construction—as below:

3½ percent basis			$7,074,212.50
Computation:			
Downpayment		$10,402,500.00	
Cost of construction financing		1,421,000.00	
Equity investment at beginning of 1st year			11,823,500.00
Original equity investment (brought down)		$11,823,500.00	
19 mortgage installments paid at $1,560,375 each		29,647,125.00	
Total		41,470,625.00	
Deduct depreciation, 19 years at $1,989,250	$37,795,750.00		
Deduct amortization of financing cost, 19 years at $71,050	1,349,950.00		
		39,145,700.00	
Equity investment at beginning of 20th year			2,324,925.00
Sum of 1st and last year equity investments			14,148,425.00
Average equity investment during entire 20 years			7,074,212.50

VII. Annual provision for depreciation on straight-line basis for 20 years:

Cost of vessel if APL paid cash	$41,610,000
Less 2½ percent of domestic cost	1,825,000
Amount to be depreciated	39,785,000
Depreciation to be provided annually	1,989,250

These funds can be utilized for additions to capital reserve fund and liquidation of mortgage.

VIII. Annual estimate voyage profit after overhead, depreciation, and construction differential refunds—per appendixes: $1,543,950.

This provides for wages of borrowed mortgage money, earnings of owner's investment in the vessel and taxes thereon.

By using the foregoing information, simplified computations demonstrate that an attempt to finance the vessel through commercial sources at a 5½ percent rate would result in an impossible proposition, both to the lender and the borrower.

Making available a section 502 (c) loan as an alternative would, however, make the project feasible even though earnings on equity capital in the vessel would provide a return considerably below what should normally be expected in many lines of enterprise. It would further, as will be seen, provide sound financial benefit to the Government.

A comparative illustration of first year vessel operation on the foregoing basis follows:

	5½-percent basis	3½-percent basis
Balance of loan and accruals	$33,440,500.00	$31,207,500.00
First year's interest plus 1/20th of deferred charges	1,950,877.50	1,163,312.50
Voyage profit—item VIII above	1,543,950.00	1,543,950.00
Deficiency	406,927.50	None
Earnings available for taxes and return on owner's capital	None	380,637.50
Income tax at 52 percent	None	197,931.50
Return on downpayment of $10,402,500	None	182,706.00
Percentage return on equity investment at beginning of first year before tax	3.912	3.219

The foregoing shows several things, these are:

A. Under the 5½ percent basis, the deficiency in earnings to cover interest expenses would have to be borne from profitable operation of other vessels. The Government would thereby stand to lose 52 percent of this amount in potential income tax or an amount of $211,602.30. If the potential tax gain of $197,931.50 under the 3½ percent basis is added to this, the situation for the Government would be bettered by $409,533.80.

B. There would be no return on owner's capital employed under the 5½ percent plan. Under the 3½ percent plan he would make a slight return, but would have foregone any earning on the downpayment funds which had been used for 3 years during the construction period. The owner also would be in the position of employing otherwise income-producing funds to make up the deficiency in earnings of the vessel to cover interest charges. A comparative illustration of an average year during the financing period of 20 years follows:

	5½-percent basis	3½-percent basis
Annual voyage profit—item VIII	$1,543,950.00	$1,543,950.00
Average year's financing cost as computed from item V	1,077,244.48	644,487.81
Residual available for taxes and return on owner's capital	466,705.52	899,462.19
Income tax at 52 percent	242,686.87	467,720.34
Return on owner's average net investment	224,018.65	431,741.85
Percentage earned by owner's average capital over 20 years	3.640	6.103

Manner in which Government could benefit additionally by providing a sec. 502 (c) loan over the 23-year period

Interest on mortgage loan	$11,468,756.25	
Interest on construction loan	1,421,000.00	
Total at 3½ percent	12,889,756.25	
1/7 thereof, representing Government's gain between 3 percent and 3½ percent		$1,841,393.75
Average income before tax, Government financing	$899,500.00	
Average income before tax, private financing	466,700.00	
Excess of former	432,800.00	
Tax thereon at 52 percent	225,100.00	
Government's tax gain in 20 years		4,502,000.00
Cash gain to Government by financing liner		6,343,393.75

Manner in which loan would be retired and disposition of owner's downpayment 20 years after completion

Depreciation for 20 years	**$39, 785, 000**
Deduct repayment of mortgage—not including financing costs while vessel is under construction	**31, 207, 500**
Addition to capital reserve fund	**8, 577, 500**
Residual book value of vessel	**1, 825, 000**
Owner's downpayment	**10, 402, 500**

NOTE.—In all the foregoing computations financing costs incurred while the vessel is under construction are expensed as deferred charges over the 20-year period and are not included in depreciation computations.

AMERICAN PRESIDENT LINES, LTD.

Proforma of operation, transpacific passenger liner

ANNUAL OPERATION

	Each voyage	11 voyages annually
Gross revenue	$1, 292, 200	$14, 214, 200
Vessel and voyage expense	1, 239, 200	13, 631, 200
Residual gross revenue	53, 000	583, 000
Operating differential	405, 000	4, 455, 000
Total	458, 000	5, 038, 000
Deduct:		
Overhead at 10 percent of gross revenue	129, 200	1, 421, 200
Construction differential refund	7, 600	83, 600
Total	136, 800	1, 504, 800
Income before depreciation, financing costs and income tax	321, 200	3, 533, 200
Less depreciation	180, 840	1, 989, 250
Voyage gain before financing cost and tax	140, 360	1, 543, 950

FINANCING COSTS AND TAX COMPUTATION

	Annually after mortgage and construction interest	
	5½ percent	3½ percent
Annual voyage gain before financing cost and tax	$1, 543, 950. 00	$1, 543, 950. 00
Financing costs:		
Mortgage interest—1st year	1, 839, 227. 50	1, 092, 262. 50
1/20 of finance cost during construction	111, 650. 00	71, 050. 00
Financing costs, first year	1, 950, 877. 50	1, 163, 312. 50
Net income or loss before tax	(406, 927. 50)	380, 637. 50
Income tax at 52 percent		197, 931. 50
Net income or loss, 1st year	(406, 927. 50)	182, 706. 00
American President Line capital employed:		
Downpayment 25 percent of foreign cost	10, 402, 500. 00	10, 402, 500. 00
Finance costs paid during construction		1, 421, 000. 00
Capital employed, 1st year of operation	10, 402, 500. 00	11, 823, 500. 00
Return or loss on capital employed, first year, percent	3. 912	1. 545

( ) loss.

SCHEDULE 1.—*Schedule of financial aspects, 5½-percent basis*

(If this plan is used the loan balance includes financing cost during construction—APL accrues this and expenses the deferred charge over the 20-year loan period)

Years	Loan balance including deferred charge	Financing costs			Annual voyage profit before finance cost	Annual voyage profit after finance cost	Owner's net investment	Annual percent earned before tax	Income tax at 52 percent	Annual amount earned after tax	Annual percent earned after tax
		5½ percent interest	1/20 of deferred charge	Total							
1	$33,440,500.00	$1,839,227.50	$111,650	$1,950,877.50	$1,543,950	($406,927.50)	$10,402,500.00	(3.912)	($211,602.30)	($195,325.20)	(1.878)
2	31,768,475.00	1,747,266.13	111,650	1,858,916.13	1,543,950	(314,966.13)	9,973,625.00	(3.158)	(163,782.39)	(151,183.74)	(1.516)
3	30,096,450.00	1,655,304.76	111,650	1,766,954.76	1,543,950	(223,004.76)	9,544,750.00	(2.336)	(115,962.48)	(107,042.28)	(1.121)
4	28,424,425.00	1,563,343.39	111,650	1,674,993.39	1,543,950	(131,043.39)	9,115,875.00	(1.438)	(68,142.56)	(62,900.83)	(.690)
5	26,752,400.00	1,471,382.02	111,650	1,583,032.02	1,543,950	(39,082.02)	8,687,000.00	(.450)	(20,322.65)	(18,759.37)	(.216)
6	25,080,375.00	1,379,420.65	111,650	1,491,070.65	1,543,950	52,879.35	8,258,125.00	.640	27,497.26	25,382.09	.307
7	23,408,350.00	1,287,459.28	111,650	1,399,109.28	1,543,950	144,840.72	7,829,250.00	1.850	75,317.17	69,523.55	.888
8	21,736,325.00	1,195,497.91	111,650	1,307,147.91	1,543,950	236,802.09	7,400,375.00	3.200	123,137.09	113,665.00	1.536
9	20,064,300.00	1,103,536.54	111,650	1,215,186.54	1,543,950	328,763.46	6,971,500.00	4.716	170,957.00	157,806.46	2.264
10	18,392,275.00	1,011,575.17	111,650	1,123,225.17	1,543,950	420,724.83	6,542,625.00	6.431	218,776.91	201,947.92	3.087
11	16,720,250.00	919,613.80	111,650	1,031,263.80	1,543,950	512,686.20	6,113,750.00	8,386	266,596.82	246,089.38	4.025
12	15,048,225.00	827,652.43	111,650	939,302.43	1,543,950	604,647.57	5,684,875.00	10.636	314,416.74	290,230.83	5.105
13	13,376,200.00	735,691.06	111,650	847,341.06	1,543,950	696,608.94	5,256,000.00	13.254	362,236.65	334,372.29	6.362
14	11,704,175.00	643,729.69	111,650	755,379.69	1,543,950	788,570.31	4,827,125.00	16.336	410,056.56	378,513.75	7.841
15	10,032,150.00	551,768.32	111,650	663,418.32	1,543,950	880,531.68	4,398,250.00	20,020	457,876.47	422,655.21	9.610
16	8,360,125.00	459,806.95	111,650	571,456.95	1,543,950	972,493.05	3,969,375.00	24,500	505,930.39	466,562.66	11.754
17	6,688,100.00	367,845.58	111,650	479,495.58	1,543,950	1,064,454.42	3,540,500.00	30,065	553,516.30	510,938.12	14.431
18	5,016,075.00	275,884.21	111,650	387,534.21	1,543,950	1,156,415.79	3,111,625.00	37,164	601,336.21	555,079.58	17.839
19	3,344,050.00	183,922.84	111,650	295,572.84	1,543,950	1,248,377.16	2,682,750.00	46.533	649,156.12	599,221.04	22.336
20	1,672,025.00	91,961.47	111,650	203,611.47	1,543,950	1,340,338.53	2,253,875.00	59.468	696,976.04	643,362.49	28.545
Total, 20 years	351,125,250.00	19,311,889.70	2,233,000	21,544,889.70	30,879,000	9,334,110.30	126,563,750.00	----------	4,853,971.35	4,480,138.95	----------
Yearly average, 20 years	17,556,262.50	965,594.48	111,650	1,077,244.48	1,543,950	466,705.52	6,328,187.50	7.375	242,698.57	224,006.95	3.540

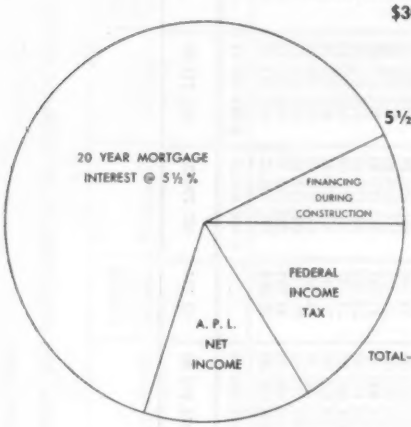
( ) Deficit.

SCHEDULE 2.—*Schedule of financial aspects, 3½-percent basis*

(If this plan is used the loan balance does not include financing during construction—APL pays this and expenses the deferred charge over the 20-year loan period)

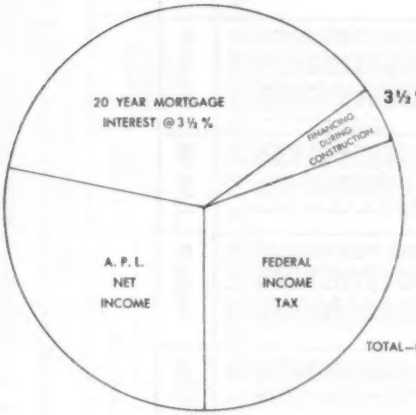
Years	Loan balance including deferred charge	Financing costs			Annual voyage profit before finance cost	Annual voyage profit after finance cost	Owner's net investment	Annual percent earned before tax	Income tax at 52 percent	Annual amount earned after tax	Annual percent earned after tax
		3½ percent interest	1/20 of deferred charge	Total							
1	$31, 207, 500. 00	$1, 092, 262. 50	$71, 050	$1, 163, 312. 50	$1, 543, 950	$380, 637. 50	$11, 823, 500. 00	3. 219	$197, 931. 50	$182, 706. 00	1. 545
2	29, 647, 125. 00	1, 037, 649. 37	71, 050	1, 108, 699. 37	1, 543, 950	435, 250. 63	11, 323, 575. 00	3. 844	226, 330. 33	208, 920. 30	1. 845
3	28, 086, 750. 00	983, 036. 84	71, 050	1, 054, 086. 84	1, 543, 950	489, 863. 16	10, 823, 650. 00	4. 526	254, 728. 84	235, 134. 32	2. 172
4	26, 526, 375. 00	928, 423. 11	71, 050	999, 473. 11	1, 543, 950	544, 476. 89	10, 323, 725. 00	5. 274	283, 127. 98	261, 348. 91	2. 532
5	24, 966, 000. 00	873, 809. 98	71, 050	944, 859. 98	1, 543, 950	599, 090. 02	9, 823, 800. 00	6. 098	311, 526. 81	287, 563. 21	2. 927
6	23, 405, 625. 00	819, 196. 85	71, 050	890, 246. 85	1, 543, 950	653, 703. 15	9, 323, 875. 00	7. 011	339, 925. 64	313, 777. 51	3. 365
7	21, 845, 250. 00	764, 583. 72	71, 050	835, 633. 72	1, 543, 950	708, 316. 28	8, 823, 950. 00	8. 027	368, 324. 47	339, 991. 81	3. 853
8	20, 284, 875. 00	709, 970. 59	71, 050	781, 020. 59	1, 543, 950	762, 929. 41	8, 324, 025. 00	9. 165	396, 723. 29	366, 206. 12	4. 399
9	18, 724, 500. 00	655, 357. 46	71, 050	726, 407. 46	1, 543, 950	817, 542. 54	7, 824, 100. 00	10. 449	425, 122. 12	392, 420. 42	5. 016
10	17, 164, 125. 00	600, 744. 33	71, 050	671, 794. 33	1, 543, 950	872, 155. 67	7, 324, 175. 00	11. 908	453, 520. 95	418, 634. 72	5. 716
11	15, 603, 750. 00	546, 131. 20	71, 050	617, 181. 20	1, 543, 950	926, 768. 80	6, 824, 250. 00	13. 580	481, 919. 78	444, 849. 02	6. 519
12	14, 043, 375. 00	491, 518. 07	71, 050	562, 568. 07	1, 543, 950	981, 381. 93	6, 324, 325. 00	15. 518	510, 318. 60	471, 063. 33	7. 448
13	12, 483, 000. 00	436, 904. 94	71, 050	507, 954. 94	1, 543, 950	1, 035, 995. 06	5, 824, 400. 00	17. 787	538, 717. 43	497, 277. 63	8. 538
14	10, 922, 625. 00	382, 291. 81	71, 050	453, 341. 81	1, 543, 950	1, 090, 608. 19	5, 324, 475. 00	20. 483	567, 116. 26	523, 491. 93	9. 832
15	9, 362, 250. 00	327, 678. 68	71, 050	398, 728. 68	1, 543, 950	1, 145, 221. 32	4, 824, 550. 00	23. 737	595, 515. 09	549, 706. 23	11. 394
16	7, 801, 875. 00	273, 065. 55	71, 050	344, 115. 55	1, 543, 950	1, 199, 834. 45	4, 324, 625. 00	27. 744	623, 913. 91	575, 920. 54	13. 317
17	6, 241, 500. 00	218, 452. 42	71, 050	289, 502. 42	1, 543, 950	1, 254, 447. 58	3, 824, 700. 00	32. 799	652, 312. 74	602, 134. 84	15. 743
18	4, 681, 125. 00	163, 839. 29	71, 050	234, 889. 29	1, 543, 950	1, 309, 060. 71	3, 324, 775. 00	39. 373	680, 711. 60	628, 349. 11	18. 899
19	3, 120, 750. 00	109, 226. 16	71, 050	180, 276. 16	1, 543, 950	1, 363, 673. 84	2, 824, 850. 00	48. 274	709, 110. 40	654, 563. 44	23. 172
20	1, 560, 375. 00	54, 613. 03	71, 050	125, 663. 03	1, 543, 950	1, 418, 286. 97	2, 324, 925. 00	61. 004	737, 509. 22	680, 777. 75	29. 285
Total, 20 years	327, 678, 750. 00	11, 468, 755. 90	1, 421, 000	12, 889, 755. 90	30, 879, 000	17, 989, 244. 10	141, 484, 250. 00		9, 354, 406. 96	8, 634, 837. 14	
Yearly average, 20 years	16, 383, 937. 50	573, 437. 75	71, 050	644, 487. 75	1, 543, 950	899, 462. 25	7, 074, 212. 50	12. 715	467, 720. 35	431, 741. 90	6. 103

DISPOSITION OF PROFORMA VESSEL EARNINGS FOR 20 YEARS
(After Overhead and Depreciation)
$30,879,000.00



5½ % PLAN:

	%	Amount
20 Years Mortgage Interest @ 5½ %	62.54	$19,311,890.00
Financing Costs During Construction	7.23	2,233,000.00
5½ % Plan Cost	69.77	$21,544,890.00
Federal Income Tax	15.72	4,853,971.00
A.P.L. Net Income	14.51	4,480,139.00
TOTAL—(20 YEAR EARNINGS)	100.00	$30,879,000.00



3½ % PLAN:

	%	Amount
20 Years Mortgage Interest @ 3½ %	37.14	$11,468,756.00
Financing Costs During Construction	4.60	1,421,000.00
3½ % Plan Cost	41.74	$12,889,756.00
Federal Income Tax	30.29	9,354,407.00
A.P.L. Net Income	27.97	8,634,837.00
TOTAL—(20 YEAR EARNINGS)	100.00	$30,879,000.00

APPENDIX E

CHARACTERISTICS: AMERICAN PRESIDENTS LINES' PROPOSED TRANSPACIFIC LINER COMPARED WITH OTHER LARGE LINERS

For the purpose of comparative illustration, the particular characteristics of the proposed vessel are listed below and are compared with those of the steamship *United States*, steamship *Constitution*, steamship *President Cleveland*, the reported Japanese liner and the new Orient Line vessel.

Characteristics	26-knot proposed liner	SS. *United States*	SS. *Constitution*	SS. *President Cleveland*	Reported Japanese liner [1]	New Orient Line vessel
Length overall	908 feet 6 inches.	990 feet	683 feet	609 feet		804 feet.
Length on waterline			650 feet	590 feet		
Length between perpendiculars	832 feet 3 inches.		632 feet	573 feet		740 feet.
Beam		101 feet	89 feet	75 feet		97 feet.
Designed load draft	30 feet 0 inch.		30 feet	30 feet		31 feet 6 inches.
Displacement (tons)			30,090	23,500		
Dry bale capacity (cubic feet)	140,000	148,000	160,000	225,000		
Reefer capacity (cubic feet)	30,500	48,000	55,000	32,000		
Liquid bulk (tons)	1,500					
Speed	26	30 plus	22½	20	23	27.
Passengers:						
1st class	560	913	365	322	150	600.
Cabin class	320	558	243			
Tourist class	570	537	395	506	800	1,650.
Total	1,450	2,008	1,003	828	950	2,250.
Crew	721	1,093	577	345		900.
Gross tonnage	43,000 [2]	53,300	23,700	15,300	22,000	40,000.

[1] As reported in Japanese newspaper Mainichi, Dec. 4, 1957, et al.
[2] Approximate.

The first-class public rooms and spaces are as follows:

1. Main lounge
2. Marine veranda
3. Dining room (seats 360)
4. Theater (seats 295)
5. Observation lounge
6. Special purpose lounge
7. Library and writing room
8. Ballroom
9. Cardroom
10. Cocktail lounges
11. Children's playroom
12. Nursery
13. Swimming pool
14. Gift shop
15. Barber shop
16. Beauty shop
17. Gymnasium
18. Foyers (various)

The cabin-class public rooms and spaces are as follows:

1. Lounge
2. Marine veranda
3. Dining room (seats 180)
4. Cocktail bar
5. Library and writing room
6. Gift shop and photo shop
7. Children's playroom
8. Nursery
9. Cardroom
10. Gymnasium
11. Swimming pool
12. Barber and beauty shops (first class)

The tourist-class public rooms and spaces are as follows:

1. Lounge
2. Marine veranda
3. Dining room (seats 330)
4. Barber and beauty shop
5. Gift and photo shop
6. Cardroom
7. Library and writing room
8. Swimming pool
9. Theater and assembly room

APPENDIX F

1. The legislation with which this proposal is concerned has been introduced by these members of the House of Representatives, who are its sponsors:

Herbert C. Bonner, chairman, House Merchant Marine and Fisheries Committee: H. R. 9432, August 23, 1957.

Frank T. Bow, member, House Appropriations Committee: H. R. 9457, August 27, 1957.

John F. Shelley, member, House Appropriations Committee: H. R. 9474, August 27, 1957.

Thor C. Tollefson, ranking minority member, House Merchant Marine and Fisheries Committee: H. R. 9477, August 27, 1957.

2. The language of the above bills is identical, and reads as follows:

[H. R. 9432, 85th Cong., 1st sess.]

A BILL To authorize the construction and sale by the Federal Maritime Board of a passenger vessel for operation in the Pacific Ocean

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is necessary in order to carry out the merchant marine policy declared in the Merchant Marine Act, 1936, as amended, to have a new passenger vessel with passenger capacity of approximately one thousand four hundred people for operation on an essential trade route in the Pacific Ocean. There is hereby authorized to be appropriated to the Department of Commerce such sums as may be necessary, to remain available until expended, for the construction, outfitting, and equipping of such a passenger vessel.

SEC. 2. Concurrently with entering into a contract with the shipbuilder for the construction of said vessel, the Board is authorized to enter into a contract for the sale of the vessel, fully outfitted and equipped, upon its completion to the American President Lines, Limited, upon terms and conditions of payment of the purchase price as provided for in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended.

SEC. 3. Except as otherwise provided in this Act, the construction and sale of the passenger vessel authorized by this Act shall be in accordance with the provisions of the Merchant Marine Act, 1936, as amended.

3. Concurrently, a resolution (S. Con. Res. 50) was introduced in the Senate by Senator Warren G. Magnuson, chairman, Senate Interstate and Foreign Commerce Committee, on August 23 (legislative day, August 22), 1957, which reads as follows:

[S. Con. Res. 50, 85th Cong., 1st sess.]

CONCURRENT RESOLUTION

Whereas it is the policy of the United States, as declared in section 101 of the Merchant Marine Act, 1936 (46 U. S. C. 1101), to foster the development and encourage the maintenance of a merchant marine "(a) sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne export and import foreign commerce of the United States and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign waterborne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States insofar as may be practicable, and (d) composed of the best equipped, safest, and most suitable types of vessels, constructed in the United States and manned with trained and efficient citizen personnel"; and

Whereas a new passenger vessel adequate in size and speed to meet the requirements of our foreign commerce and national defense is needed in the Pacific area to insure carriage of a substantial portion of the waterborne export and import foreign commerce of the United States in the transpacific trades by the United States merchant marine; and

Whereas the Department of Defense has stated that a majority of the passenger vessels now in the United States merchant marine and capable of serving as troop transports in time of war or national emergency are deficient in speed and that the construction of new passenger vessels is required in the interests of national defense; and

Whereas the capital investment required for a vessel of the necessary size and speed exceeds the financial resources of any qualified operator in the United States merchant marine; and

Whereas the Department of Commerce, Maritime Administration, is authorized by section 502 of the Merchant Marine Act, 1936 (46 U. S. C. 1152), to contract for the construction, outfitting and equipment of new vessels in United States shipyards and to sell such vessels at foreign cost to citizens of the United States for use on essential trade routes, services on lines in the foreign commerce of the United States under contracts requiring a downpayment of 25 per centum of the sales price and payment of the balance of said sales price in twenty equal annual installments with interest at 3½ per centum per annum; Now, therefore, be it

Resolved by the Senate (the House of Representatives concurring), That it is the sense of Congress that the Department of Commerce proceed as authorized by section 502 of the Merchant Marine Act, 1936, to construct, outfit, and equip a new passenger vessel with a passenger capacity of approximately one thousand four hundred and a speed of twenty-six knots, at an estimated domestic cost of $73,000,000 ($45,000,000 for twenty-three knot vessel) and an estimated foreign cost of $41,000,000 ($25,000,000 for twenty-three knot vessel), and to sell said vessel to American President Lines, Limited, a citizen of the United States and an experienced and qualified steamship operator, for use on essential trade routes, services, or lines in the transpacific trade.

APPENDIX G

[Press release, January 31, 1958]

P. & O. AND ORIENT LINE JOIN—FORM PACIFIC'S LARGEST COMMERCIAL SHIPPING OPERATION

Creation of the largest commercial shipping operation in the Pacific—Orient and Pacific Lines—was announced in New York yesterday by Sir Donald Anderson, deputy chiarman and managing director of the worldwide Peninsular & Oriental Steam Navigation Co., celebrated in literature and shipping history as "the P. & O."

Sir Donald arrived in New York from London yesterday (Thursday). He explained that the new Orient and Pacific Lines will employ and enlarge the current operation of the Orient Line (a member of the P. & O group) and will bring into the Pacific on an expanded scale the services of the Peninsular & Oriental Steam Navigation Co., largest commercial shipping organization and fleet in the world.

"For the first time," Sir Donald stated, "two United Kingdom lines will be operating across the North Pacific linking the west coast of the United States, Canada, and Honolulu with Japan, Hong Kong, and the Philippines. And in the South Pacific," he added, "P. & O. will intergrate its service with existing Orient Line routes between North America, New Zealand, and Australia."

"The new joint service will utilize as a single operation the vessels, personnel and facilities of both companies, marking the first time in the storied history of both lines that they have operated on a noncompetitive basis."

"Creation of Orient and Pacific Lines," said Sir Donald, "will mean the introduction into the Orient run of 3 additional ships including the largest ever to ply the Pacific, the 30,000-ton *Arcadia*. We expect that under our new plans we will ultimately increase by some 20,000 annually, the number of passenger accommodations to and from the United States."

"As for the future," he said, " there are now under construction two new ships to be added to the Orient and Pacific Lines' fleet at the end of 1960. They are being built at a cost of $85 million and will bring Orient and Pacific's total operating tonnage to almost 300,000."

"One of them is a 45,000-ton vessel designed to carry more passengers than any other commercial liner afloat. The other is approximately 40,000 tons. Both ships will be fully air-conditioned, will be fitted with stabilizers, and will feature luxury passenger accommodations in which every first-class cabin in the ship will have its own window to give natural light. Tourist class will have single, 2-berth and 4-berth cabins and a large unprecedented share of the upper decks. Also planned in each ship besides the normal public rooms are 3 swimming pools, 2 ballrooms with parquet floors—1 to be operated as a night-club—and fully equipped permanent theater."

"This investment is being made," Sir Donald stated, "because of the growing importance of the Pacific area in world commerce and the increasing recognition everywhere of the Pacific world as one of the most fascinating and satisfying tourist experiences to be found on this globe."

Orient and Pacific Lines' ports of call will include San Francisco, Los Angeles, Vancouver, Honolulu, Yokohama, Kobe, Manila, Hong Kong, Suva, Auckland, and Sydney. Entry into the Trans-Pacific Passenger Conference has been sought and the necessary approval of the Federal Maritime Board has been requested.

The Orient Lines' current service linking North America with New Zealand and Australia was inaugurated in 1954. Demands for space from tourists and from American and Australian families linked by wartime marriages prompted the line to increase its round-trips from 1 every 6 months in the initial stages to an average of 1 every 6 weeks currently.

The new runs will include extension of the Orient Lines' existing South Pacific route—from San Francisco to the Far East; and extension of P. & O.'s existing United Kingdom/Far East service eastwards across the Pacific to the United States and Canada; and finally, the introduction of a triangular voyage from Australia to the Far East and thence across the Pacific to North America.

Mr. PAINE. Mr. Allen, and Mr. Chairman, you will find a complete list of ships prior to World War II of the American Mainliner, the foreign-flag service and the American President Lines service.

Mr. ALLEN. Were all those passenger ships turned over for use as transports during World War II?

Mr. PAINE. I was not with the company then but, as I recall it, every ship we had I think was taken by the Government and we lent our aid in operating them.

Mr. ALLEN. Is it also true that with no exceptions, or, at least, very few, they were all lost in the service?

Mr. PAINE. Yes, sir. After the end of World War II we recovered 2 ships, the *Polk* and *Monroe*, that were not operating.

Mr. POOLE. Mr. Chairman, may I interject a remark in order to be completely accurate?

At the end of the war we got back 1 old ship that was 40 years old, the *President Johnson*.

We sold her somewhat later, before Mr. Paine's time. We started out the war with a fleet of 20 ships. The Government took them all, of course. Some they kept. The majority were lost and there were these 3, the *President Monroe*, *President Polk*, and the old-time *President Johnson*.

Mr. ALLEN. Since World War II, possibly 4 or 5 years ago, you had under construction 3 new ships which were also taken by the Government during the course of construction.

Mr. POOLE. They were taken by the United States for use in the Korean trouble.

Mr. ALLEN. Turning once more to this matter of private financing, which has been the policy of the Maritime Administration and the administration generally, is it true that in those cases where the system of private financing has been used the ships involved have also been in trades of such a nature that they would earn the interest demanded by the private lenders?

Colonel BRINSON. We think so, Mr. Allen. Of course, all the financing has been, as I understand, freighter construction.

Mr. ALLEN. Is it fair to say that, with regard to such ships as superliners, the sister ship of the steamship *United States*, in this new ship that you propose, the operation runs into a field which cannot produce a profit for the private lenders and, therefore, either falls or gets another type of financing?

Colonel BRINSON. I think that would be a very important consideration.

Also, we think they consider the fact that a freighter can be diverted from its original service for which it was designed to almost any service.

It is not impossible, whereas a passenger liner is frozen to the service for which she was designed and therefore you have no flexibility.

I think that is a consideration that investment bankers would give.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Brinson, in your discussion and the previous discussion of the Atlantic superliner, this question of raising the foreign construction differential did not come up. Why does it come up in your case?

Mr. BRINSON. By our recent experiences, Mr. Chairman. Right now we are, with the Federal Maritime Board, trying to resolve a problem of awarding a contract to improve Mariner-type vessels. There is one bid which the Board may come to which will prove that the domestic cost of this bid will be, we think, more than twice what it would cost to build a foreign ship and the 50 percent limitation may come into play in this particular case.

We also are mindful of the fact that, while this is only our thinking, only two shipyards in this country would probably be interested in this vessel. That would be the New York Shipbuilding Co. and Newport News.

The New York Shipbuilding Co. is now the low bidder on the replacement for the *America*, so it might fall that there would be only one bidder on our vessel; not that that would mean that they would have a monopoly on the bidding, but it would well be that the domestic cost of this vessel in our case would be more than twice the cost of building it foreign.

If so, we are seeking protection, so that the Board will have constitutional authority to go ahead and award and set the construction differential rate in excess of 50 percent.

As I say, we are confronted with that possibility in the case of these two freighters.

The CHAIRMAN. Mr. Van Pelt?

Mr. VAN PELT. I have no questions.

The CHAIRMAN. Mr. Ray?

Mr. RAY. I have no questions.

The CHAIRMAN. Mr. Mailliard?

Mr. MAILLIARD. Following up the chairman's questioning, Is it not true that this did not arise in the consideration of the bills to build the sister ship of the *United States* because they are not proposing to build under this section of the act?

They are proposing a flat price, where the question of the construction differential subsidy, the 50-percent limitation, will not apply? Is that not correct?

Colonel BRINSON. According to my understanding, it has not come up. It could have the same effect, however.

Mr. MAILLIARD. If their bill is passed, however, they would not need this provision that you recommend; would they?

Colonel BRINSON. I assume, Mr. Mailliard, if we assume that $47 million, as I understand it, would represent the foreign cost for replacement of the *America*, then it would in effect remove the 50-percent limitation which the Board has now.

Mr. MAILLIARD. If I understand these bills correctly, and I have not studied them perhaps as much as I should, the bill proposing to build the sister ship to the *United States* simply eliminates that 50 percent without saying so, as I would interpret it.

Colonel BRINSON. It certainly has that effect; yes, sir.

Mr. MAILLIARD. However, as long as you wish to build under the existing provisions of law for Government as opposed to private financing, you must have that raised in order to achieve the same result that would be achieved under the proposal for the *United States*?

Colonel BRINSON. It would not be the same result, sir, we don't think. The same result would bring our ship down to around $31 million.

Mr. MAILLIARD. I did not mean that. I meant that as far as this 50-percent requirement goes, I believe that wording of their bill effectively eliminates it without mentioning it, whereas the bill that you propose would not eliminate it without specifically mentioning it.

Colonel BRINSON. It is our view that there is the net result.

Mr. MAILLIARD. I am a little bit surprised that with a ship of this size and the comparable design there would be so much discrepancy between these two positions. I am, therefore, interested that American President Lines apparently thinks they can build a very large ship and a very expensive ship under the provisions of the 1936 act without setting a definite ceiling on it. Can you account for that?

General Franklin says he cannot do it, and you say you can.

Mr. POOLE. I don't know how we could answer that question if we didn't know the thoughts that are in Mr. Franklin's mind. I don't know the answer to it.

Mr. PAINE. I might add that when you get beyond about 27 or 28 knots you do have to go to 4 shafts. When you go from 2 shafts to 4 shafts you do have to increase the cost of the ship very sizably.

Mr. MAILLIARD. That is a big jump in cost.

Mr. PAINE. That is quite a big jump; yes, sir.

Mr. MAILLIARD. Therefore, perhaps the reason then might be that, just as you feel you can finance your freighters under one system, when you get into this amount of money, then the financing costs become excessive, so that perhaps again it is a discrepancy in total fianancing costs between the two vessels.

Being from California, I like to think that we are a little more efficient on the Pacific coast, but I didn't get that answer.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Pelly.

Mr. PELLY. Following up a little on that question, Colonel Brinson, the cost of the vessels, as you estimate it, $73 million. If the Maritime Board is able to arrive at a construction differential subsidy rate of 45 percent, then the way I figure it the owner's cost is $40 million plus, as compared with the owner's cost of $41.6 million, and at 43 percent construction subsidy rate it would be $41 million.

Mr. PAINE. I think we might add there, Mr. Pelly, if we may, that the CDS rate we have assumed assumes considerable competition in domestic bidding.

The CDS rate is tied to the domestic cost and, if the domestic cost goes up, the CDS rate goes up, the cost to the American President Lines and the foreign cost theoretically at least remains fixed.

Mr. PELLY. At 47 percent DCS, the owner's cost would be $38 million or practically $3 million less than it would at the $43 million rate.

Mr. PAINE. Except for this, sir: We believe that, if we were to receive a 47 percent CDS rate, it would only be due to a higher domestic bid than we have assumed, so that, therefore, we would be in the same position.

Mr. PELLY. I think it is necessary, however, to fully justify legislation of this kind because certainly the committee if it passes out the bill is going to have to be prepared to fully explain to the other Members of Congress any such drastic position; and I do not feel, myself, that the figures are adequate for me to stand up and justify it.

I think we have to have something more.

Mr. PAINE. I believe our presentation attempted to show that there was an uncertainty on our part which carried to the point of where we did not go what this domestic price is going to be.

Ships of this size and passenger ships in general are not a common product of United States shipyards. They build them and they build them extremely well, but the domestic cost is an uncertain amount and quite variable and we feel quite uneasy about the possibility of the domestic bid being so high that the normal CDS rate would exceed 50 prcent.

That was the reason for the introduction of this bill.

Mr. PELLY. But you heard General Franklin testify that they were figuring 42 percent.

Mr. PAINE. Yes, sir.

Mr. PELLY. There is one more question I would like to get in the record. That is the difference in total financing cost of the Government financing at 3½ percent as against the private financing at 5½ percent, including financing fees.

Do you have that figure at hand, or would you insert it in the record?

Mr. POOLE. Yes, we will have it. We have it in some papers here. If you approve I will get it out and put it in the record.

Mr. PELLY. I would like to be able to see it.

(The document referred to follows:)

AMERICAN PRESIDENT LINES,
Washington D. C., February 6, 1958.

HON. HERBERT C. BONNER,
Chairman, Merchant Marine and Fisheries Committee,
House of Representatives, Washington, D. C.

DEAR MR. BONNER: Responding to Mr. Pelly's request made in hearing yesterday, here is the difference in financing costs between the Government and private lenders as the source of our proposed borrowed funds, using the private lending rate which our recent borrowing experiences lead us to believe would be effective. The private lending rate, 5½ percent, includes one-half of 1 percent premium to the Government on account of insurance under title XI.

Interest on—	3½ percent Government	5½ percent private lenders
Construction loan [1]	$1,421,000	$2,233,000
Mortgage loan [2]	11,468,756	19,311,890
Total	12,889,756	21,544,890

[1] Average amount borrowed during about 36 months' construction, $14,000,000.
[2] Average amount unpaid during 20-year mortgage, $16,383,938 owed to Government or $17,556,262 owed to private lenders.

Mr. Pelly was comparing this difference in interest cost with the effect on us of varying construction-differential rates. It is our estimate that the foreign construction cost of our transpacific liner will approximate $41,610,000 (excluding financial costs) and that any change in the construction-differential rate would likely arise from the variation of domestic bids and would not affect the price we pay for the transpacific liner. To the extent our estimate is accurate, therefore, a possible increase in the construction-differential rate above 43 percent (used in our calculations) would represent increased domestic costs and would not offset nor lighten the burden of 5½ percent total interest cost.

Our calculations did not, as you can readily infer from the above, include commitment fees nor costs of attorneys' services, printing, trustee's fees, etc. Thus the difference in interest costs, about $8,650,000, is understated by some amount not easy to estimate with accuracy.

Yours sincerely,

ARTHUR B. POOLE,
Vice President and Treasurer.

TREASURY DEPARTMENT,
FISCAL SERVICE,
Washington, February 11, 1958.

Mr. NOAH M. BRINSON,
Vice President, American President Lines,
Washington, D. C.

DEAR MR. BRINSON: With reference to your letter of February 10, 1958, you are advised that the average interest rate on the interest bearing public debt of the United States as of January 31, 1958, was 2.860 percent.

Very truly yours,

W. T. HEFFELFINGER,
Fiscal Assistant Secretary.

Mr. PELLY. That is all, thank you.

The CHAIRMAN. Mr. Glenn.

Mr. GLENN. I have no questions.

The CHAIRMAN. Mr. Dellay?

Mr. DELLAY. I have no questions.

The CHAIRMAN. Counsel will inquire.

Mr. DREWRY. Colonel Brinson, you mentioned when you were reading Mr. Killion's statement regarding the application of nuclear energy that it would scare away passengers. On what do you base that?

Did you conduct any surveys, or just how was that conclusion arrived at?

Mr. PAINE. We have gone into the nuclear question at some length. We don't consider ourselves expert, but we have gone into it at some length.

In the case of the *Nautilus* you are given a badge when you go aboard. You are given special slippers. After 24 hours they check you to see how much you have picked up.

I, fortunately, have a son-in-law who is head of the Navy unit at ARCO. Although he only gives me unclassified information, I feel certain that at this stage of the development of the science there would be some uncertainty that could develop.

Mr. DREWRY. Have inquiries been made of travel agents, for instance, to sound out what the public benefit actually might be?

Mr. PAINE. No, sir; we have not gone that far.

However, we have noted one incident in the British plant and, of course, we have the uncertainty in that, if more incidents happen to atomic plants ashore, passengers very probably would take a second look at going aboard our ship.

On the first voyage she would be full regardless, because as someone commented, there is a long line of people that will want to go any-

where when there is a first and so forth, but we do feel that there is some risk there that cannot be judged accurately at this stage of the process.

Mr. DREWRY. What will be the length of time needed to build this ship? I do not recall that it was mentioned in the statement.

Mr. PAINE. It will depend on the yard to which it might be assigned. If the New York Shipbuilding Co. bid and if they presumably also will have a bid in for a replacement to the steamship *America*, if they might be building two at once, it might be lengthened.

However, we assume a time of 40 months from date of contract.

Mr. DREWRY. Do I understand that this ship involves no special defense considerations other than the fact that a fine, fast ship that meets your commercial requirements in the Pacific will be of immense value?

Mr. PAINE. That is correct, sir, except I would point out that Gibbs & Cox, our design agents, have designed a ship with lines and other characteristics that are suitable for driving at high speed and to which we can add defense features very, very well.

Mr. DREWRY. Such as additional speed?

Mr. PAINE. Evaporator capacity, generater capacity and such features as that.

Mr. DREWRY. But there has been no direct discussion by American President Lines or Maritime with the Navy on the question of special defense features?

Mr. PAINE. No, sir; we have supplied the Federal Maritime Board and the Navy with plans of the ship and, if I might insert at this time, I think it is interesting to the committee to know that we have already completed the bidding plans and specifications for this ship and are in a position to go out and ask for bids upon Maritime Administration approval, so that we can expedite the construction of the vessel.

Mr. DREWRY. I am repeating this because it seems to me that this project should have gone as far as it has, as you just mentioned, with the bidding plans virtually ready, with funds for its construction on a private financing basis having been requested, I believe, last year, as well as being included in this year's budget, and yet with no clearance or no consideration of whether or not any additional features might be required to make it meet defense requirements.

Mr. PAINE. The design of the ship is such that I believe Gibbs would testify that the defense feature can be added and the addendum to the specifications is provided to provide defense features with very little difficulty.

Mr. DREWRY. Then I might take it that this is as great an advance in shipbuilding design for the Pacific Ocean as is possible at this time?

Mr. PAINE. Yes, sir; I think Mr. Bonner will be particularly interested to know that we have given special emphasis to the safety features of this vessel. I have reviewed those features with Mr. Gibbs and this vessel exceeds the safety requirements of the Coast Guard, both as to compartmentation and fireproofing of material.

You will find here an excellent vessel from the safety point of view, which, of course, is an added feature from the national defense point of view.

Mr. DREWRY. Your speed is 26 knots plus?

Mr. PAINE. Yes, sir; its normal speed would be 26. It can be raised by national defense horsepower.

Mr. DREWRY. What about the projected competition? Do you know what the Japanese or the British or the others might be thinking in terms of speed?

Mr. PAINE. It is very difficult, sir, to determine what the Japanese are actually coming out with. We have had our representatives in Japan interested in this subject. We have made all the inquiries we could. We have talked to their passenger agents. They have stated up to now that 23 knots is the speed they want except that in one very recent release they talk of 25.

Twenty-three knots speed makes sense for the reason that it allows you to leave Yokohama in the evening and arrive at Honolulu in the morning.

For passenger operation it is most desirable to have time of arrival and departure such that you can arrive in the morning, disembark, ready your ship for the next passengers that are embarking, and go on your way in the evening, so the 23 knots does work out for that and when you want to raise your speed the next speed that works out is 26.

Mr. DREWRY. That is all, Mr. Chairman.

Mr. MAILLIARD. Mr. Chairman, could I ask one question?

The CHAIRMAN. Yes.

Mr. MAILLIARD. Getting back to this 50 percent limitation, it occurs to me that if, as you say, you are liable to get a bid from 2 or possibly only 1 yard when you issue an invitation to bid, would not an excess above 50 percent on the differential between foreign cost and the cost of this bid simply mean an excessive bid because of lack of competition?

Mr. PAINE. No, sir; not entirely. A yard might bid fairly high. I believe all of these contracts have recapture and renegotiation clauses in them, so the Government is protected against the shipyard making an exorbitant profit.

However, these ships are not usually worked by United States shipyards and the hotel section area, the finish and so forth, is something that is somewhat special and we feel that there is an uncertainty; that it might go above 50 percent.

We might get three bids. I have talked to all of the yards that might be interested. At Ingalls yard, I talked to Mr. Monrow Lanier 3 or 4 days ago. He reiterated that the ship has too much beam for his yard.

The Sun shipyard is not interested.

The bidders we believe would be New York Ship and Newport News.

There is a possibility of Bethlehem. We would like to have Bethlehem bid and will issue them the specifications and will hope they will bid, but they might not, based upon the information we have.

Mr. MAILLIARD. Certainly Newport News at least has had considerable experience not only in building large passenger vessels, but in

completely renovating passenger vessels, so that its interior, the hotel end of it, is no stranger to them.

Mr. PAINE. It isn't completely strange to them and we might get quite a low bid. We feel there is an uncertainty. We can't prove that it exists, but we feel there is some danger there.

Mr. MAILLIARD. I just express the fear that, if you have only one bidder, and this committee approves the bill which lifts the 50 percent restriction, it is sort of an invitation for an excessive bid.

Mr. PAINE. There is that danger, too.

I would point out, Mr. Mailliard, that the foreign yards are faced with quite a few tanker cancellations. The foreign yards in Japan, I am certain of right now, and some of the European yards, too, may get what we call the hungry state and the foreign cost would be quite low, whereas the United States shipyards are now building up.

Mr. Morse has been successful in placing a large number of contracts with domestic yards and they are building up and when the foreign yards have a tendency to be on the downgrade and the United States yards on the upgrade, that would tend to make the CDS rate higher.

Mr. MAILLIARD. Does that necessarily follow? Is it not also true that, as the yards are able to build up and acquire a little more stability, their efficiency should increase?

Mr. PAINE. There is something to that point; yes, sir. That is another factor that influences the decision, certainly.

Mr. MAILLIARD. Perhaps it is not even necessary to pass the bill. If we were able to persuade the Maritime Administration that they should agree to Government rather than private financing, we really would not need a bill at all, except for this 50 percent factor; is that not correct?

Mr. PAINE. That is correct, sir.

However, I think you, sir, and the committee, would be interested in reflecting on this particular feature. The Maritime Administration is by law required to arrive at the construction differential subsidy rate that is based on foreign costs and in every case over 33⅓ percent they must have convincing evidence that the rate that they set higher than 33 percent is justified, so that there is a protection to the Government that I think is being well exercised.

Mr. MAILLIARD. However, still would it not probably expedite and simplify this whole matter if we could persuade the Maritime Board that they should authorize you to build with Government financing and go ahead and get bids?

This 50 percent thing may be a problem that does not exist and, if we could do that, it certainly would expedite it and if we find it does exist we could still probably legislate about as fast as we could now.

Mr. PAINE. The bids would normally be received in June or July. I don't know how fast we might act on that, but it is something we may never meet.

That is true. We have an uncertainty about it that is bothering us.

Mr. MILLER. Would the gentleman yield?

Mr. MAILLIARD. I am finished.

Mr. MILLER. I was just going to observe that, if we do not take action on that 50 percent clause and it does not come to pass that you could do it, then under 502 (c) because of the price of the bid, we

would be stymied for the rest of the year because by that time there will be very little legislation going through Congress, I think you will agree.

Mr. MAILLIARD. Oh yes; that is possible. I think it could be done if the Congress wanted to do it.

Mr. MILLER. It could, but you would be taking a long chance on that.

Mr. PAINE. We are in a hurry. The British are coming. The competition in the Pacific is going to be quite keen. We are anxious to fulfill our obligation to step in and provide American-flag transportation.

Mr. GARDNER. I think, Congressman Mailliard, you might want to inquire of Chairman Morse how long it would take them to evaluate the bids and work out the construction differential subsidy after they were received. I think that would add probably several months to the time schedule we have been discussing.

The CHAIRMAN. Let me see if I have the difference between these two cases.

The United States Line comes in and says they simply cannot build and pay more than a certain amount. That is their case. They did not raise the question of the difference between domestic and foreign costs and there were other features that they did point out that are not in this case.

You have progressed to such an extent that evidently there have been firm negotiations, for, as I understand it, funds are in the budget to take care of the construction of your vessel.

Colonel BRINSON. That is right.

The CHAIRMAN. You come in at this point and say you cannot build.

Colonel BRINSON. That is right, Mr. Chairman, in the light of what we now know about the difficulties and the costs of private financing.

The CHAIRMAN. You come in and say you cannot build unless you have Government financing and unless the differential is changed by an act of Congress permitting the Maritime to increase the differential between domestic and foreign costs.

Colonel BRINSON. That is right, sir.

The CHAIRMAN. You say those two things?

Colonel BRINSON. Yes, sir.

The CHAIRMAN. You do not place a price on your level that you are able to pay?

Colonel BRINSON. That is right, sir.

The CHAIRMAN. Yet you are not positive what the differential would be between foreign and domestic costs.

Colonel BRINSON. No, sir.

As a matter of fact, Mr. Chairman, in the final analysis, we are really not concerned with what the construction differential subsidy is because all we are concerned with is the true foreign cost to us, if it is 30 percent or whatever it is.

It all remains relative. That will depend, of course, on the domestic bid. Maybe the Maritime has more information or some information upon which they might enlighten the committee as to what the foreign costs of our ship may be. We don't know.

All of these estimates, the $73 million is an estimate.

Based on the $73 million estimate of domestic cost, we then, based on our experience with the Maritime Administration and present

construction differential subsidy rate, adjust backward and say we think it will be about 42 or 43 percent, which would give us the $43 million.

That all remains relative.

All we want is assurance of protection of Congress that we will be able to build a ship at the true foreign cost. That is all we are saying, sir.

The CHAIRMAN. Is that not already provided in the 1936 act?

Colonel BRINSON. Except the 50 percent; yes, sir. We feel we need congressional authority, just like United States Lines does, to get over whatever objection there may be, and I am sure Mr. Morse is in much better position to explain than we are as to why private financing is forced on us.

The CHAIRMAN. I am discussing that private or public financing question that is in the discretion of Maritime. There is no specific law about that. They can go either way and require you to finance the way they want you to finance it.

Colonel BRINSON. Yes, sir.

The CHAIRMAN. However, the second part of your objection bothers me. If it applies in your case, why does it not apply in the other cases?

Colonel BRINSON. They have a matter there of great importance to them, national defense features.

We don't know just what they are. We know we have endeavored to design a commercial ship which will put us on the same competitive level with foreign commerce, foreign-flag competition, the British and the Japanese.

That is all we are seeking.

The CHAIRMAN. Are they not in the same position?

Colonel BRINSON. We will all be in the same position as we see it, through the 1936 act, where we are placed on parity, and we are not attempting to go beyond that.

However, we feel that a danger exists. If the domestic cost of this ship turns out to be more than twice what it costs to build the ship foreign, then we would be hurt because the Federal Maritime Board cannot go beyond the 50 percent, and that is the only protection that we are seeking.

We gave the committee a figure of $36 million that we will accept. We think that would be approximately the result of what we will be prepared to build this ship for, the cost to the American President Lines.

The CHAIRMAN. Mr. Drewry.

Mr. DREWRY. Colonel Brinson, right there, the United States Lines desire a commercial ship of 28½ knots. They are operating at 30½ knots. That seems to be the troublesome point as to where you break off on determining what is strictly commercial and what is national defense.

You have not arrived at any results as to national-defense features in your case.

What is to keep you from being in exactly the same position that the United States Lines is in, for instance, if the Navy were to decide that 32 knots will be the maximum they would like to have and you would then run at 30, wouldn't that just by the same token become your commercial speed, and, therefore you would have to pay.

Colonel BRINSON. I might go back there, Mr. Drewry, and go into that. We have bought some Mariners from the Maritime Administration at 20 knots. Our contract provided that even though we paid the 18-knot cost, when we utilized the speed beyond the 18 knots we then paid Maritime for the use of that power.

Since then, and getting away from that, we have bought the ships at 20-knot-speed cost.

That, I suppose, you would call a policy matter with the Maritime Administration. We determined our commercial speed of ship to be 26 knots. We propose to operate at 22 knots.

Normally, there would be only rare occasions if ever when we would use more than 26 knots for our commercial requirements.

However, if the ship was built for 30 knots, we would expect to pay for that excess speed, based on our existing contracts with Maritime.

I don't know what the controversy is between United States Lines and the Maritime Administration, but when it comes to speed above your speed under our present contracts we pay for it where we have bought them at a certain speed and use it in excess of that.

I don't know whether I can make myself clear or not.

Mr. DREWRY. I think you do.

The 26 knots is arrived at on the basis of the schedules that you would like to meet; is that right?

Colonel BRINSON. That is right, sir.

Mr. DREWRY. So the hypothetical question that I put to you might not become involved as far as your using the greater speed, except in an emergency or to make up a slowdown or something of that sort.

Colonel BRINSON. That is right, sir.

Mr. DREWRY. That is all.

The CHAIRMAN. Are there any further questions?

Thank you very much.

Colonel BRINSON. Thank you very much, Mr. Chairman.

The CHAIRMAN. The committee will now stand adjourned until tomorrow morning at 10 o'clock.

(Thereupon, at 12:30 p. m., the committee was recessed, to reconvene at 10 a. m., Thursday, February 6, 1958.)

SUPERLINER LEGISLATION

THURSDAY, FEBRUARY 6, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., room 219, Old House Office Building, Hon. Herbert C. Bonner, chairman of the committee, presiding.

The CHAIRMAN. The committee will come to order.

We will resume the hearings on the replacement of steamship *America* and the building of a passenger superliner for the Pacific area.

The witness this morning is Vice Adm. Ralph E. Wilson, Deputy Chief of Naval Operations, Logistics, United States Navy.

Admiral, do you desire to have another witness?

STATEMENT OF VICE ADM. RALPH E. WILSON, UNITED STATES NAVY, DEPUTY CHIEF OF NAVAL OPERATIONS (LOGISTICS); ACCOMPANIED BY VICE ADM. JOHN M. WILL, UNITED STATES NAVY, COMMANDER, MILITARY SEA TRANSPORTATION SERVICE; AND CAPT. CASSIUS D. RHYMES, JR., UNITED STATES NAVY

Admiral WILSON. I have asked Admiral Will, commander of the Military Sea Transportation Service, and Captain Rhymes, my assistant.

The CHAIRMAN. You gentlemen may be seated.

You may proceed admiral.

Admiral WILSON. Mr. Chairman and members of the committee, I am Vice Adm. Ralph E. Wilson, Deputy Chief of Naval Operations for Logistics.

I appear today as a witness for both the Navy Department and the Department of Defense.

I welcome this opportunity to discuss the emergency passenger ship requirements of the Department of Defense. Our interest in passenger ship construction is based on the need for modern, high-speed ships capable of being used as troop transports in times of national emergency.

Bills H. R. 9342 and H. R. 9432, introduced by the chairman, and similar bills, authorize the construction of a superliner to replace the steamship *America* and the construction of a passenger vessel for operation in the Pacific.

Both of these new ships will significantly reduce our qualitative deficiency in troop transport potential. Their earliest completion will, therefore, make an important contribution to improving our national defense posture.

In the event of a national emergency, the military would have an immediate need for a number of troop transports. Depending on the gravity of the situation and the time factors involved, this need might not be met by ships now available to us.

It is easy to visualize situations, even short of general war, where demands for the rapid mass movement of people would exceed our present military capability. This could well become a race against time to evacuate nationals, to redeploy forces, or to augment existing forces overseas.

For such purposes a significant increase in our limited reserve capability in high-speed passenger ships under the American flag will be of great value.

There will be an urgent need for merchant shipping even in the event of an initial devastating nuclear exchange. Shipping active on the high seas will stand a good chance of surviving the initial onslaught.

Many vitally important tasks will remain to be done. These may include military occupation of enemy territory, continued support of allies, and transportation for our own economic rehabilitation. Heavy damage to our industry and lack of time would prevent the construction of sorely needed shipping. We would have to carry on with what we have on hand.

The question may arise as to whether our calculations of shipping needs for general war have taken into consideration the capabilities of our allies and the magnitude of multilateral commitments to the NATO pooling concept.

The answer is a qualified yes. The United States has entered in all sincerity into NATO planning for the pooling of merchant shipping. We intend to abide by our commitments in the event of a NATO war.

It appears most probable that the national requirements of other NATO nations would exceed their combined shipping capabilities. Additionally, many foreign-flag passenger ships have marginal endurance under heavy loading conditions.

It must be pointed out, too, that the NATO Defense Shipping Authority is not expected to become fully operational until 2 or 3 months after the outbreak of war. Meanwhile, our immediate need for efficient transports must be filled from United States-flag shipping.

Of utmost significance in this connection is that the United States must be prepared for emergencies other than all-out war and a NATO war. We have interests in many areas of the world that fall outside the NATO sphere of planning.

We must also recognize that under various circumstances which might arise, the policies and views of the United States would not necessarily coincide with those of our many allies in each and every crisis. The lessons of history have taught us that, as a matter of fundamental policy, our primary reliance must continue to be placed on capabilities under our direct control.

Present planning indicates that by a combination of employing active passenger-type vessels and activating additional ships from the national defense reserve fleet, we could meet our minimum needs for troop transport in the event of general war. We have enough ship space to provide the required initial lift.

This determination is valid, however, only on a quantitative basis.

Unfortunately, the majority of our ships are old. Most of them are deficient in speed and lacking in other features that are important in minimizing the hazards of moving troops by sea. The use of many of them under modern war conditions would involve a high degree of risk which can be significantly reduced by the construction of modern high-speed ships.

America's active and reserve inventories of passenger-type vessels add up to a total of 156 actual ships, ranging in age from 5 to 30 years. Of these, 56 ships are limited to a top speed range of 15½ to 16½ knots, have an average age of 14 years, and represent a combined emergency capacity for about 56,000 troops.

Sixty-one ships have a top speed range of 17 to 17½ knots, average age of 15 years, and a combined emergency capacity for about 163,000 troops.

There are 3 ships of 18 knots that are 30 years old and have a combined emergency capacity for about 4,000 troops.

We have 24 ships in the 19-knot bracket, including 16 MSTS transports which can do 20 knots in a pinch.

However, to call them 20-knot ships would be stretching a point. They have an average age of 13 years and a combined emergency capacity for about 81,000 troops.

Deduction leaves 12 actual passenger-type ships that are capable of 20 knots or more. They represent a combined emergency capacity for about 33,000 troops, but 5 of these ships are over 25 years old and are lacking in several defense features.

In fact, our existent, fully modern trooplift potential amounts to only 6 ships—3 converted 20-knot mariners, the 25-knot *Constitution* and *Independence*, and the 33-knot *United States*, which add up to a total emergency capacity for about 14,000 troops, enough for 1 streamlined division.

Ships under construction include 2 passenger vessels for Grace Lines and 2 for Moore-McCormack Lines. As with the converted mariners, they meet the minimum speed requirements for modern troop transport.

The 4 ships will provide a total emergency capacity for about 5,000 troops. These ships do include many improved design features, and they will contribute appreciably to the quality of our total trooplift potential.

World Wars I and II proved that the submarine is a deadly enemy of merchant-type ships. The Soviet submarine force has reached a strength of over 450 submarines, which is greater than the rest of the world navies combined, and the largest submarine force in world history in peace or war.

Because of a concentrated building program commencing in about 1950, the greater percentage of these are new, long-range units of modern design.

By contrast, the Germans had only 57 submarines in operation at the beginning of World War II. The impact of this numerical comparison is ominous.

With a few notable exceptions, a steadily growing submarine menace is compounded by a relative stagnation in merchant-ship development and the consequent increase in the vulnerability of our shipping.

The vulnerability of merchant ships to submarine attack can be reduced in some measure by certain built-in national defense fea-

tures. The more important of these are: (*a*) speed, (*b*) compartmentation for damage control, (*c*) increased fire and shock resistance, (*d*) extra endurance and cruising range, (*e*) defensive armament and equipment.

Each of these defense features is valuable. The importance of speed cannot be overemphasized. Speed is the best passive defense that merchant-type ships can employ against hostile submarines. The faster the target, the more difficult it is to hit with submarine torpedoes, and the more difficult it is for a submarine to get into position for launching a torpedo attack. These are simple derivations from the laws of probability.

An added advantage of high speed is the flexibility in routing. Fast ships can be operated independently over more devious routes than is possible in convoy operations. This permits them to avoid known concentrations of submarines without undue loss of voyage time.

In the past war it was standard doctrine among naval shipping-control authorities that a ship capable of 18 knots or more should normally be employed as an independent, rather than in a convoy.

This speed criterion is no longer valid, due to developments in submarine performance and the overall magnitude of the submarine menace. Today it is not considered prudent to permit independent routing of any ship not capable of a sustained speed of at least 20 knots. Even at this minimum speed there is a considerable risk involved.

Detailed studies indicate that ships capable of speeds up to 24 knots are, in certain situations, as susceptible to attack by submarines capable of sustained high-speed submerged as was a 13-knot ship during World War II.

There is no magic speed figure that guarantees complete immunity to submarine attack. In transiting known or probable focal points of submarine menace, even the fastest ships would require additional protection, but this does not reduce the value of high speed as an effective passive means of protection.

Our studies show that with increases in speed above 25 knots the proportionate reduction in vulnerability definitely pays off. High-speed design is expensive, but it will prove of great value in time of war. On some routes, in time of peace, it has obvious commercial advantages as well.

The importance of speed will increase as submarine development advances.

In emphasizing the value of speed, the importance and value of other built-in national defense features should not be obscured. Many of them also serve to improve the commercial quality of a vessel, especially as regards safety and reliability.

High standards of compartmentation reduce the vulnerability to enemy hazards by localizing damage; the spread of flooding into undamaged compartments is prevented, and a substantial margin of buoyancy is thus assured.

Special preservative coatings, minimum use of wood, and other preventative measures increase a ship's resistance to fire damage.

Carefully designed shock mountings reduce the possibility of breakdown of essential machinery under enemy attack. Certain preparatory structural work is accomplished, such as foundations and adapta-

tions, with a view to wartime installation of armament and other defensive equipment.

Endurance adequate to fulfill a ship's primary mission is a vital factor in wartime. Maximum endurance is required in ships whose mission entails long extended periods of steaming at sea. All types of major warships and submarines fall in this category.

Transports and those logistic support type ships whose mission involves point-to-point transportation should possess sufficient endurance to make round-trip voyages at maximum sustained speed. Many of our available transports do not possess sufficient endurance to fulfill their mission.

The requirements of endurance include the additional fuel capacity requisite to extended cruising range at high speed. The size of distilling plants, the storage space for dry and refrigerated provisions, the capacity of electrical distribution systems, and many other features are also important considerations in regard to endurance.

The development of nuclear power represents a great advance in ship propulsion, particularly because of unlimited endurance. Nuclear propulsion in a man-of-war is of inestimable value as it insures a comparatively unlimited cruising range and enables a major warship or submarine to remain in its operating area for extremely protracted periods of time.

As you know, the Navy has undertaken a long-range program for the application of nuclear power to surface ships, as well as submarines. To date, 19 nuclear-powered submarines and 2 nuclear-powered surface ships have been approved and funds appropriated for their construction.

Not only is nuclear propulsion presently very expensive to construct, it is also costly to operate. Navy experience and estimates show that the operating fuel cost of nuclear-powered ships is considerably greater than that of similar ships fitted with conventional propulsion.

It is noted that bill H. R. 9654 would incorporate nuclear propulsion in the replacement for the steamship *America*. We do not believe that this action would improve either the commercial or defense utility value of this vessel by sufficient margin to warrant the disproportionate increase in the initial cost and the operating costs.

A passenger ship, even when used as a transport, is essentially a point-to-point carrier. For such employment adequate endurance can be achieved without resort to the high premium cost of nuclear power.

For example, the cruising range of the steamship *United States* is adequate for emergency purposes. The high pressure, high temperature steam powerplants planned for these new ships represent the most efficient and most modern design of steam propulsion, and can be installed in the minimum of construction time.

The incorporation of nuclear propulsion would most likely necessitate considerable extensions in the design and building periods.

Until further developments make nuclear powerplant costs competitive with oil, we do not recommend the application of nuclear propulsion to ships of this type.

I have given you only a brief résumé of national defense features. Basically they are improvements and refinements in design, above normal commercial standards, that make a ship more sturdy, more capable, and more reliable, particularly under wartime conditions.

These features not only improve a ship's performance and her ability to evade attack; they also enhance a ship's capacity to absorb an enemy attack and survive—they reduce her requirements for logistic support.

The replacement for the steamship *America* and the passenger vessel for the Pacific will have designed speeds of about 33 knots and 28 knots, respectively.

As in the case of the steamship *United States*, the design of both ships will include speed above commercial requirements built in for defense purposes. These new ships will incorporate the maximum in safety and reflect the most modern national features. Their comfortable cabin spaces, designed for approximately 2,000 and 1,500 passengers respectively, will be convertible to troop accommodations with utmost ease and a minimum of delay.

Even without any conversion, these new ships could respond quickly and effectively to an urgent demand in the event of emergency. Under such conditions the 2 ships would have the capability to evacuate a combined total of 7,000 mixed civilians and dependents, or to redeploy a combined total of 9,500 troops.

By relatively rapid conversion, their capacities could be increased to ultimate totals of 14,000 and 10,000 troops, respectively.

The prosecution of war utilizes all the resources of our Nation. Our entire industrial potential is intermeshed into our overall national defense posture. To project our military power overseas and support sustained combat operations, our Armed Forces must rely heavily upon American industry, and the maritime industry, as in the past, must play a key role.

We are fortunate that we have laws and policies that are designed to both encourage and develop a strong maritime industry. It is most opportune for national defense that these two superior ships are proposed for construction under the logical policies of existing law for the primary purpose of furthering our maritime commerce and maintaining the prestige of our American merchant marine.

While I have stressed the need for these ships in emergencies, there is an advantage in having additional United States flag passenger capability to provide for peacetime military requirements. Many of the transports operated by the Military Sea Transportation Service are poorly appointed for peacetime troop movements.

Additional commercial passenger capability would make it possible for MSTS to utilize its better transports more effectively and inactivate the less desirable ships.

Such action would effect a more economical operation and, at the same time, provide additional support for the privately owned merchant marine.

At present United States commercial lines can only make an appreciable amount of space available to MSTS in the so-called off season. Because of this, MSTS is compelled to operate a greater number of ships than would otherwise be necessary.

In summary, for the reasons set forth above, the Department of Defense desires to emphasize the urgent need for the construction of modern passenger ships. These 2 ships have been under discussion for about 2 years and will require about another 3 years to build, once approved.

The financial and contractual details of the various proposed bills are matters of Department of Commerce cognizance. While deferring

to the Department of Commerce in regards to such business aspects, the Department of Defense fully endorses the enactment of legislation which will authorize the prompt construction of these modern passenger ships.

The CHAIRMAN. Admiral, I must say I do not know how in the world the Navy could endorse more strongly the proposal that is now before this committee. As one of the committee, I want to express the appreciation of the committee for the Navy's frank and serious consideration of this matter.

Admiral WILSON. Thank you.

The CHAIRMAN. Mr. Lennon.

Mr. LENNON. No questions.

The CHAIRMAN. Mr. Pelly.

Mr. PELLY. Thank you, Mr. Chairman.

Just one question, Admiral. Have you gone into, at all, the cost of the defense features that would go into these two particular vessels?

Admiral WILSON. Mr. Pelly, I haven't, personally; but Admiral Mumma, I understand, the Chief of the Bureau of Ships, is also one of the witnesses, and I believe he is prepared to answer that in considerable detail.

I could give you rough estimates.

Mr. PELLY. I will defer the question until Admiral Mumma comes on the stand.

The CHAIRMAN. Mr. Young.

Mr. YOUNG. No questions, Mr. Chairman; thank you.

The CHAIRMAN. Mr. Dorn.

Mr. DORN. No questions.

The CHAIRMAN. Mr. Glenn.

Mr. GLENN. No; thank you.

The CHAIRMAN. Mr. Kluczynski.

Mr. KLUCZYNSKI. No, sir.

The CHAIRMAN. Mr. Mailliard.

Mr. MAILLIARD. I have no questions, Mr. Chairman, but I would like to make the comment that, as always, Admiral Wilson makes about the best statement we hear before this committee.

Admiral WILSON. Thank you.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. I just want to join in congratulating Admiral Wilson on that statement. I know nothing that could be brought out better, other than I am very concerned, Admiral, with the new problem that will confront us this time in case of an emergency, and that is the repatriation of American civilians and dependents that are abroad.

That is going to impose, as I see it, a tremendous new problem that we have never had to tackle before.

Would you care to expound on it a little bit?

Admiral WILSON. I think you have pretty well summed it up, sir. It is a problem that gives us great concern and, of course, we have plans for contingencies, but we recognize that our capabilities as they exist right now, as I have attempted to bring out in this statement, are considerably limited.

Mr. MILLER. I think it is fair to say this: That these people must be brought home for the very practical reason that if we do not bring them home, then we will have to support them in Europe or wherever

they are, and that would be the same burden as supporting another 200,000 troops to feed and to care for.

Admiral WILSON. I think that is a safe conclusion; yes, sir.

Of course, over there, their support would add many complications that troop support would not include.

Mr. MILLER. And we must have the capability of getting them out of the danger zone and as rapidly as we pass troops in. Is that not true?

Admiral WILSON. That is right.

Mr. MILLER. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Ray?

Mr. RAY. No questions.

The CHAIRMAN. Mr. Thompson?

Mr. THOMPSON. One question, Mr. Chairman.

Admiral, you hardly left a question unanswered in your statement that I can think of except I am curious to know about one thing.

You mention the much greater cost of construction and operation of nuclear propulsion as against the conventional propulsion. Could you tell the committee approximately what the percentage is of greater cost of nuclear propulsion construction and the greater cost of operation of it at the present time?

Admiral WILSON. Of course, constructionwise we have had considerable experience with a number of ships as I have indicated. I have never calculated it on a percentage basis.

I would anticipate that the increased cost—and Admiral Mumma can certainly verify this more accurately than I can—in the case of the *United States* might well run $50 million. I mean the replacement of the *America*.

Mr. THOMPSON. Would it cost twice as much, say, to build just the power for the ship?

Admiral WILSON. I think it would be more than that.

Mr. THOMPSON. How about the operation?

Admiral WILSON. Four times.

Mr. THOMPSON. Four times?

Admiral WILSON. We made a study in connection with a nuclear-powered tanker. We figured it would cost about four times as much to transport a ton of oil by nuclear propulsion, with a nuclear propulsion plant, over the conventional plant at the present-day cost.

Mr. THOMPSON. That is the operation?

Admiral WILSON. Yes.

Mr. THOMPSON. I mean the initial cost of the propulsion under it as against a conventional type?

Admiral WILSON. Of course, it will vary a great deal with the type of ship and figures on combatant ships are probably not too indicative of what you would find in the commercial, but I believe the estimate which I have here, which applies specifically to the *Savannah*, the Maritime Administration's nuclear-powered cargo ship, is almost twice as much.

Mr. THOMPSON. Four times as much actual cost for transportation after it is in operation?

Admiral WILSON. Our experience to date does not substantiate quite that much in submarines. Submarines are the only ships we have operated.

Mr. THOMPSON. Knowing it does cost considerably more, and possibly 3 to 4 times as much more, in the actual operation, are we closing the gap in your opinion and do you think the next several years will see a more economic functioning of nuclear propulsion to where it will be competitive at sometime in the future?

Admiral WILSON. I think that we are closing the gap. I cannot say that it will ever be completely competitive. I know the replacement cores in the *Nautilus*, for example, were much cheaper than the initial cord.

Mr. THOMPSON. And they are continually making advances in the design to where they are cutting down costs.

Admiral WILSON. I am sure that is correct.

Mr. THOMPSON. Do you think within the next few years we will see any startling change that will make it a lot more economical and better?

Admiral WILSON. I think there will be a significant reduction in operating costs as manufacturing techniques are improved and more efficiency in design is accomplished.

How rapid that would be would be nothing more than a guess.

Mr. THOMPSON. Thank you.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Van Pelt?

Mr. VAN PELT. No questions.

The CHAIRMAN. Mrs. Sullivan.

Mrs. SULLIVAN. No questions.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

Admiral, I want to join in the commendation of your statement. I think in the 11 or 12 years I have been sitting up here it is the finest statement that has come out of the Office of the Chief of Naval Operations.

It is not only complete in the discussion, but gives us some of the reasoning that is back of it, and I very much appreciate both the statement and the improvement.

Admiral WILSON. Thank you, Mr. Allen.

Mr. ALLEN. The American President Lines ships designed for 28 knots and the replacement of the *America*, 33 knots. We have had figures from time to time that would indicate that the increase in speed does increase the safety in almost immeasurable ways.

I seem to remember figures that 80 or 90 percent of the sinkings in World War II were ships below 14 or 15 knots, or something of that sort.

That brings me to the question: Is there a degree of safety that you can measure which comes with an increase, say, of from 20 to 28 knots, or from 28 to 33, or even greater speed so that we could tell whether it is worth even more money for defense features than is requested to get additional speed and how much additional speed?

Admiral WILSON. As I attempted to point out in this statement, Mr. Allen, the point that I made about speeds above 25 knots beginning to make a payoff; those studies that came up with that figure are based on the most modern submarines that we ourselves know.

In other words, the nuclear propelled submarines that have a capability of high sustained speed submerged.

Mr. ALLEN. As I remember the costs that were discussed yesterday, the new American President Lines ship would be somewhere from $28 million to $35 million as a commercial ship.

I suppose if we raised that speed from 28 knots to 35 knots it might come close to doubling the cost of the vessel.

The question is whether it is worth it from a standpoint of national defense to double the cost to get an additional 3 or 4 knots, or whether it is worth adding 4 or 5 million dollars to get an additional 2 or 3 knots.

In other words, what is the relationship between additional cost and the probable safety?

Admiral WILSON. I think that somewhere in the 28 knot range you are up against a very practical consideration that if you get a ship of that size to exceed that speed you immediately go to 4 shafts, which makes it a very much more expensive ship. I don't know that we can put a dollar sign per knot on this thing. It would be very hard to do.

However, I can say this: If it was a question of having a 28-knot ship or none at all, we would be very happy to have the 28-knot ship.

Mr. ALLEN. I will agree with that one, but is it worth the additional two shafts to spend with Federal money an additional amount and if so, how much.

In other words, there must be a breaking point somewhere from the defense standpoint. We know what it is, according to the testimony, from a commercial standpoint.

Admiral WILSON. At the present time we feel reasonably encouraged by any ship that is over 25 knots. Beyond that I don't think we are prepared, Mr. Allen, to give you any real statement of how much related to the dollar is the ship. I think you have to also look into this aspect of it:

We recognized in the beginning that the reserve of capacity of these ships is only made possible because they have a peacetime utilization of high importance, and you might be building a speed into a ship which would make it uneconomical in the commercial routes that she is intended for.

Mr. ALLEN. Turning to another phase of your statement, it seems to me that you emphasize both the trend on the part of the Navy, and MSTS in particular, to use the private merchant marine to a greater degree than was formerly the case, which causes me to wonder whether in going from Government operation to private operation of this facility the burden on the private operation to be able to meet the requirements of an auxiliary is being increased, and in a sense as a corollary the duty or burden of this committee to make sure that there is a good auxiliary is being increased.

Admiral WILSON. I think from the very beginning, MSTS has certainly indicated a willingness to use commercial facilities wherever they could. I think there is a minimum beyond which they cannot go in reducing their so-called nucleus fleet, but we have not gotten to that minimum insofar as passenger transportation is concerned.

Mr. ALLEN. I have just one other question on the whole line. I think there have been some recent experiences in which the Navy has taken over ships of the merchant marine, indicating the desirability and the importance of their immediate availability.

For example, I believe that some ship of the American Export Lines was transferred from private operation to the operational control of the 6th Fleet while it was at sea and some part of a possible conflict in the Mediterranean.

Have you had examples of that type of availability during the past 2 or 3 years?

Admiral WILSON. I believe that that was at the time of the Suez crisis when we had an immediate problem on our hands of evacuating people from that critical area.

Mr. ALLEN. How long did it take the Navy to get control of the ship?

Admiral WILSON. I think it was just a matter of putting the finger on and hoping the thing would be straightened out later.

I don't think there was any appreciable time whatever.

As a matter of fact, there was complete cooperation and no difficulty resulted.

Mr. ALLEN. How long do you think it would have taken to have gotten a Navy ship to do the same job?

Admiral WILSON. The Navy ships did the job, Mr. Allen. I mean this ship participated in it. We put Navy transports along side the pier in Egypt to take these people out.

The Navy ships actually went into the area. The commercial ships were of great assistance in taking the bulk out.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Robeson.

Mr. ROBESON. Mr. Chairman, I have 1 or 2 questions of Admiral Wilson.

First, I would like to join in expressing appreciation, Admiral, of your appearance and your testimony.

Admiral WILSON. Thank you, sir.

Mr. ROBESON. On page 6 you list five of the more important defense features and you state the importance of speed cannot be overemphasized.

On page 9, you make mention that the Navy has to date 19 nuclear-powered submarines and 2 nuclear-powered surface ships approved and funds appropriated for them.

I think your testimony supports the need for speed and for the features in these large passenger ships for defense purposes.

Then we have the cost feature. In this committee we are always confronted with the fact that the Defense Department apparently can disregard the cost of fighting ships, but then, on these auxiliary ships, it is very difficult sometimes for people interested in costs to, as they say, subsidize the merchant marine, even though these ships in your mind do have a definite value.

It occurs to me there is no time when there is any commercial value or any income from a Navy vessel. It is strictly a fighting ship.

Admiral WILSON. That is right.

Mr. ROBESON. Certainly there is no use of a return from a vessel except when it is taken over for defense or commerce.

The question is: Do you think the additional cost of nuclear power, which would give much greater speed, so I understand, and would allow changes in design to give much greater capacity, would be justified from a defense need standpoint?

Admiral WILSON. I think there is one misunderstanding there, sir. The only place that nuclear power will give you more speed is in the submerged sustained speed of submarines. There is no speed advantage in nuclear power in a surface ship.

There is nothing magic about nuclear power that gives you more horsepower per pound.

Mr. ROBESON. I agree per se there may not be, but I understand that with a ship of approximately the same design as the *United States* a nuclear powerplant probably could be put in the ship that would give much greater speed.

Admiral WILSON. No, sir; I don't believe that will be true.

Mr. ROBESON. Maybe I have been misinformed. The point I was interested in was the factor of decision does not seem to me in the need for defense to be necessarily the higher cost, but as to what benefit and as to how much delay there would be to design and to shift over to a nuclear powerplant.

You think the expense would not be justified?

Admiral WILSON. I base that primarily on the fact that in order to keep these ships in being and keep them active they have to be profitable ships for the merchant marine to operate and my own opinion is that that is the only way that the Congress would ever authorize their construction, a recognition that they would be successful, going concerns as a part of the American shipping line.

Mr. ROBESON. I would think that if the Government picked up the cost of the defense features and the additional speed in those the same opportunity for profit would remain. I mean that would be a matter of how much the Government wanted to pick up the cost of construction and the operation that was what I wanted to get in my mind.

It appeared to me that you were not inclined to advocate proceeding now with nuclear power for the big lines.

Admiral WILSON. That is correct.

Mr. ROBESON. When would you expect the large liners we are talking about to be available to the Defense Department?

Admiral WILSON. I think that is a matter of development.

Mr. ROBESON. Another 3 years?

Admiral WILSON. I think that is awfully hard to estimate, sir. We have had some reductions in the initial cost of nuclear propulsion as we have gone along with this thing. There is still a great area, though, to gain experience in.

Mr. ROBESON. I meant the actual construction and delivery of the liner so that it was in service and, therefore, available to you would be something in the future, so we are making decision on what to build now, and the ship would be taken on in an emergency later, maybe 2 or 3 years.

Certainly it is not available now. I have been involved in shipbuilding in two of these crash programs. That is the reason the laid-up fleets are full of ships to be assembled and built quickly, but if we had started ahead of time, we could have designed much faster and better ships; is that not correct?

I thought maybe we ought to give consideration at this time to getting the best possible defense emergency ship so that instead of duplicating the conventional ship we would be in position to duplicate the best one we had presently available.

Admiral WILSON. Perhaps I could be a little gratuitous there, sir, if you will support our ideas of installation of nuclear propulsion in major warships; that it will make a great contribution to the application in commercial ships, because the plant is practically the same.

Mr. ROBESON. I am for it.

Admiral WILSON. What we would be asking for our carrier, for example, would be very suitable with minor adaptations to go into *United States*. We are in the same range of horsepower.

Mr. ROBESON. That is what I understand. I know a little something about it and that is why I am more concerned that we move in more quickly on the big liner, because I was involved with thousands and millions of man-hours in the cost of building ships that we sent out that just didn't have the speed, and did not have the features, and were not of use commercially.

I am not too scared about sputnik, but I am thinking maybe something should move us a little faster.

We are talking about 2 or 3 years ahead now when we are talking about these liners. I am sure of that.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. Thank you, Mr. Chairman.

Admiral, if I had not already been convinced that we ought to have these two ships envisaged by our bulls, I certainly would have been convinced after hearing your statement. You left very little unanswered and I am hard put to think of questions to ask you.

Just at the end of World War II an admiral by the name of Wilson made the statement that the Navy could not have performed its missions had it not been for the utilization of the American merchant marine. Were you that gentleman?

Admiral WILSON. Yes, sir.

Mr. TOLLEFSON. Could you make the statement today that the Navy could not perform its missions in the event of an emergency were it not for the utilization of commercial-type vessels?

Admiral WILSON. I am sure that the statement I made then is equally true today, sir.

Mr. TOLLEFSON. Speaking for the Department of Defense, would you include the other departments of defense in that statement?

In other words, could the Army have performed its missions without the utilization of commercial-type vessels?

Admiral WILSON. I am certain that I can include the other services in that.

Mr. TOLLEFSON. In other words, commercial-type vessels, which include passenger vessels, are in a sense, then, an integral part of our military plan. If none of the departments can operate without the merchant marine or cannot perform their missions without it, then it must be in a sense what has been called the fourth arm of defense.

Admiral WILSON. Our entire national policy is based on the policy of mutual security with our allies, and, if we cannot project our power overseas and maintain our lines of communication with our allies, then our whole policy of collective security falls down; and the bulk of that communication, or transportation, will continue to fall on sea transportation.

Mr. TOLLEFSON. I just wanted the record to record your thoughts on the matter because a great many people are not able to realize

that the American merchant marine has defense aspects and in a sense has military aspects, and there is some criticism directed toward the fact that we have a lot of cargo vessels and troop transports laid up and inactivated.

As a matter of fact, when the Navy isn't fighting a war, are their ships not laid up pretty much, too?

Admiral WILSON. We have a rather sizable reserve fleet in the Navy, sir.

Mr. TOLLEFSON. You would not think of scuttling all of them just because we were not in a war? One of our objectives is to be ready to go to war or fight a war in the event we get into an emergency; is that not true?

Admiral WILSON. That is correct.

Mr. TOLLEFSON. When you suggest in your statement the possibility of laying up some transports presently utilized by MSTS, that is in line with the philosophy followed by the Navy with respect to many of its vessels; is it not?

Admiral WILSON. That is correct, sir. I am sure that we will see more of this as time goes on. It is already taking place to the degree it can.

Both the Navy's and the national-defense reserve fleet are subject to purification if you want to call it that. As better ships are put into the reserve fleet the older and less desirable types are eliminated.

Mr. TOLLEFSON. In other words, you are constantly improving your capabilities; and, as you do, you remove vessels that are approaching obsolescence, which are obsolete, whether they are destroyers, or battleships, or what have you.

Admiral WILSON. That is correct, sir.

Mr. TOLLEFSON. I gather that you would agree that the same thing ought to apply to our merchant type of vessels, our commercial type of vessels. We should seek to improve them constantly also.

In your statement you make this statement, speaking of the need for rapid mass movement:

> This could well become a race against time to evacuate nationals, to redeploy forces, or to augment existing forces overseas.

In World War I and World War II, we did have quite a race against time in building ships to meet the requirements of the Department of Defense; was that not true?

Admiral WILSON. It certainly was; yes, sir.

Mr. TOLLEFSON. Could it be said that when the emergency came upon us we did not have the ships to meet the requirements of the Department of Defense?

Admiral WILSON. I think that history would prove that a correct statement in both wars, particularly in World War I, but to a very large degree in both world wars.

Mr. TOLLEFSON. Admiral, I have run out of questions already.

Mr. ALLEN. One question in my mind is with regard to these very expensive ships, such as the replacement of the *America*, which I think totals $128 million.

Are we getting our ships to be so valuable that they would perhaps, so to speak, make it possible for an enemy to use a different type of attack on them, possibly a nuclear device, where a smaller ship would not draw such fire?

Admiral WILSON. I don't believe that is true, Mr. Allen. These ships sound very large. At sea the difference in a submarine being able to hit one of these ships as compared to a Victory or a Mariner, I don't think the difference in size will be very significant. If he is not there at the right time, and in the right place, the right position, the ship moving too fast for him, he isn't going to hit it, or his chance of hitting it are much less.

Mr. TOLLEFSON. That is all, Mr. Chairman.

The CHAIRMAN. Admiral, would it be fair to say that with all the modern scientific advancement in capital Navy ships, fighting ships, their efficiency is decreased unless the supporting ships are improved in the same ratio?

Admiral WILSON. I think that is a completely fair statement, Mr. Chairman. It is a situation that concerns us now in our own ships, that we have not within our resources to date been able to provide a balance of supporting ships to our new combatant types.

The CHAIRMAN. Therefore, to secure the full efficiency and capability of the fighting ship in the future this must be done?

Admiral WILSON. Of course, these particular ships will not lend direct support to our combat Navy.

The CHAIRMAN. I mean the overall effort.

Admiral WILSON. Overall effort, certainly; yes, sir.

The CHAIRMAN. And the answer is this must be done to keep abreast of the overall effort in the advancement, scientifically and otherwise, in modern combat situations.

Admiral WILSON. The answer to that, sir, is definitely "Yes."

The CHAIRMAN. Mr. Garmatz.

Mr. GARMATZ. Admiral, on page 4 you speak of America's active and reserve inventories of the passenger vessels. Is this not somewhat a little misleading to the extent that if you were in an emergency you could not get these 56 ships at 15½ to 16½ knots at one time and you could not get the 61 ships at 17 and 17½ knots? Would you not wind up with probably 4 of the 15-knot ships and maybe 4 of the 17-knot ships?

How long would it take you to get these out of the reserve fleet?

Admiral WILSON. You can well wind up with only the ships that are active and in being.

Mr. GARMATZ. You would not get all these ships you have listed here with the number of ships at certain speeds?

Do you follow me?

Admiral WILSON. Oh, you wouldn't have this total inventory that I have mentioned available—these 156 ships—for probably 3 to 4 months.

Mr. GARMATZ. You would have no possible way of knowing how long it would take before you could really get the 56 ships at 15 knots and the others at their speeds?

Admiral WILSON. You not only have the problem of making out the portion of these that are in the laid-up fleet, but you have the problem of redeployment of ships that are active maybe half the world away from where you need them at the time.

Mr. GARMATZ. You would have to make separate convoys. You would have to take the 15-knot ships in one setup, and the 17-knot ships in another setup, and the 20-knot ships in another setup; or is it practical to put them all in one convoy?

Admiral WILSON. If you do that, of course, you reduce it to its lowest common denominator and your whole group then would be in the 15-knot speed or less.

Mr. GARMATZ. On page 9 in the second paragraph, you speak about the cost of the nuclear-powered ships. Would you have any idea of the difference in cost between the nuclear-powered submarine and the conventional submarine, the cost of that compared to the many advantages that the nuclear submarine has?

Admiral WILSON. The difference in cost in some of our latest estimates on submarines is about $8 million for nuclear-power propulsion.

Mr. GARMATZ. Between the nuclear-powered and the conventional submarine?

Admiral WILSON. Yes.

Mr. GARMATZ. How about the advantages that the nuclear submarine has?

Admiral WILSON. That is almost beyond measurement.

Mr. GARMATZ. I mean in the cost of the $8 million there are many advantages?

Admiral WILSON. Oh, yes, sir.

Mr. GARMATZ. You say the Navy is going to build 2 nuclear-powered ships along with their 19 submarines. What particular advantage will the Navy get out of these nuclear-powered ships?

Admiral WILSON. There are many, but the one that really stands out is the terrific endurance.

Mr. GARMATZ. Will not some of those advantages go over into the commercial-passenger ship the same way?

Admiral WILSON. It all relates to the mission of the ship, sir.

Mr. GARMATZ. Say, for instance, these ships we are speaking about.

Admiral WILSON. With respect to a combatant ship in a carrier task force, its ability to maintain the sea for a long period of time is a very important thing, and the same is true with a submarine. A ship that is engaged in point-to-point service, if she has enough endurance to make a round trip, or to get to where logistics are relatively easy, is perfectly capable of fulfilling her mission. That is the greatest distinction in the two types that I am speaking about.

Mr. GARMATZ. How about refueling this Navy nuclear ship? How long would that take, roughly?

General Franklin spoke the other day about the disadvantage, the time it would take in refueling whenever it was necessary on a passenger ship.

Would the Navy not have the same trouble refueling?

Admiral WILSON. Yes, sir; but you are speaking of a job that is only required after some 350,000 miles of steaming as compared to 10,000 or 15,000 miles.

Mr. GARMATZ. Would there be any difference in refueling whether it is a commercial ship or whether it is a Navy ship?

Admiral WILSON. No; that is right.

Mr. GARMATZ. It would still be the same amount of fuel?

Admiral WILSON. That is right.

It is a shipyard job. You have to go in and renew the cores of the reactors. That is what is consumed in nuclear propulsion. It is the reactor core.

We recently did that job on the *Nautilus*. I am sure Admiral Mumma can be more specific than I can, but I know the job was done

in less than their estimated time. It was done easier and in less time than they had anticipated and that represented the first Navy experience in it.

Mr. GARMATZ. And you could not see any particular advantages at all to a commercial ship with a nuclear-power setup?

Admiral WILSON. Not until it gets competitive, I really don't. The ship is perfectly capable of carrying out her point-to-point mission without this added feature.

I think you could say that it would be desirable, but not of the urgency that it is in many other types of ships.

Mr. GARMATZ. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Boykin.

Mr. BOYKIN. Admiral Wilson, I think you have made a wonderful statement. We have had some other great men up here in the last few days. The statements of General Franklin and George Killion yesterday were wonderful, too.

I read them last night and I hope they will read yours and that you will read theirs, and I believe you will.

It is fantastic here what you tell us about the submarine. You say:

> The Soviet submarine force has reached a strength of over 450 submarines, which is greater than the rest of the world navies combined, and the largest submarine force in world history in peace or war.

I remember, Brother Thompson, when they were blowing up all your ships down in your district and right at Fort Morgan, Ala., right down there in the Gulf of Mexico. I have a little cottage on the gulf, and the ships were coming in. We had as high as a hundred ships laid up there at night because they were afraid to go out of Mobile Bay. It was a terrible thing. We just could not get anywhere.

Mr. Miller was talking about getting these people home. Of course, we would have to try to get them home.

Your statement has been fine. It has been very fair and you did it so easily. You were so straight about it. I think it is wonderful.

What are we doing about building an awful lot of submarines?

Admiral WILSON. You don't necessarily match number for number in this business. Submarines play an important part. They are a very valuable tool, but by no means the only method of getting at this problem.

Mr. BOYKIN. I think we have to have every means in the world. I will tell you of an experience that surprised me last week, and some of the gentlemen are here today.

I see one of them out here now.

We had a hundred men from Alabama from the steel mills. We have great steel mills up there as you know. The United States Steel Corp. has great mills and we had them from every place in Alabama, and every time we would vote to spend a little money I would hear from one of those gentlemen and they would severely criticize me.

The other day we had this hundred men. We were in the old Supreme Court room over here and we locked it up and had lunch over there. We had more men than we have here. We were talking about this $5 billion we are going to give you.

These men that had been kicking all the time about spending anything came up from the biggest industries, and the biggest corporations, and from the farms and everywhere else and said, "Gentlemen, it doesn't make any difference whether it is $5 million or $5 billion.

Take whatever you need and spend whatever you need to get what we need for ammunition, the Navy, the Air Force, or the Marines."

So it has kind of changed. I enjoyed, too, what my friend Mr. Robeson here, who went through this, said. I was in the shipbuilding business in a big way and had 3 plants in World War I and, like Congressman Bonner, our chairman, said, we have to be ready, and I think that what you are saying is certainly just exactly right and I believe from what all of my colleagues here on this committee have said, that we are certainly with you a thousand percent.

I know I am, and I was with General Franklin on his statement, and also Mr. Killion.

We better be together on everything. I have been on this committee off and on for over 20 years and I do not think I have ever heard a better or franker statement and I agree with everything you said, because I think you have given us the facts as you know them.

I have certainly enjoyed hearing your statement. I will join with my chairman in being for everything in here that you have said. I am certainly glad to see private enterprise and all these people agreeing at one time about what we need not only in our Navy and Air Force, but our Merchant Marine, and our passenger ships, and all other kinds of ships. I certainly enjoyed your testimony.

Admiral WILSON. Thank you very much.

The CHAIRMAN. The counsel of the committee, Mr. Drewry, has some questions to ask.

Mr. JOHN M. DREWRY (chief counsel). Admiral Wilson, in your statement you mention that we have enough ship space to provide the required initial lift. Then you itemize the vessels in our total inventory which make up that initial lift space.

Is it not true that under today's possibilities in warfare that initial lift may be all that we will have. Is not our shipbuilding capability vulnerable at many points in the country, and not merely at the shipyard itself?

Admiral WILSON. I think it is perfectly possible that the ships in being will be the only ones that you will have for a considerable period of time, probably a greater period of time than we experienced in either one of the other wars.

Mr. DREWRY. On the question of the costliness of these vessels, there is also the limit to be considered of the relative cost in the use of these vessels versus other forms of transportation in the event of need for large movements of personnel in time of emergency; is that not right?

Admiral WILSON. Of the cost?

Mr. DREWRY. Yes; the cost of transport by ship versus airlift, for instance. Isn't there a widespread difference between the two?

Admiral WILSON. I think cost becomes secondary in a major emergency. Certainly it never becomes secondary under anything less than that, but if you were inquiring as to the relative cost of airlift and sealift of large quantities of commodities, including human, I think the cost very much is in favor of sealift.

Mr. DREWRY. Do you have any idea of what the comparison would be?

Admiral WILSON. It is in the neighborhood of 25 to 1, sir, on mass movement.

The CHAIRMAN. You mean it costs 25 times as much to lift the personnel by air as it does by surface?

Admiral WILSON. That is a large bulk movement of forces or commodities, sir.

Mr. MAILLIARD. Will the counsel yield on that point?

Mr. DREWRY. Yes, sir.

Mr. MAILLIARD. We had this discussion before, and somehow I retained the ratio of 8 to 1. Does that figure mean anything to you? It seems to me that we had testimony here a few years ago either from you or Admiral Denebrick, and the ratio was considered to be about 8 to 1 as against transportation that was held up by being on the surface of the earth as compared to having to lift it into the air.

Admiral WILSON. I think in any cost analysis like that, Mr. Mailliard, you have to state your terms of reference and the study that I was speaking from was based on a relatively long distance movement of cargo or people, where you have to transport the fuel for the aircraft as a part of the whole operation.

On the transatlantic, I am sure my 25 to 1 would not apply in a number of peacetime movements.

Mr. DREWRY. Admiral, I notice that all three of you gentlemen are submariners. This so-called initial lift capability which we have could mean very, very little. You might get the troops aboard, but there would be a strong question as to whether they would get there with many of the ships which we have to meet this initial lift requirement; is that correct?

Admiral WILSON. It would put a considerable burden on the Navy to get them there. We would certainly make every effort to do it. I do not mean to minimize the job we would have to do. It would be a lot easier if we could do it with fast ships.

Mr. DREWRY. However, there is a desperate need for not only enough ships, but fast-enough ships, and you say the ships in being are the most important thing we have today.

Admiral WILSON. That is correct.

Mr. DREWRY. Just one other thing. In the report from the Department of the Navy, which is speaking for the Department of Defense, is this statement, which I would like to read to you and hope that perhaps you could enlighten me as to just what it means:

> The Department of the Navy has been advised by the Bureau of the Budget that while there is no objection to the submission of this report to the Congress, the Bureau of the Budget believes that it would be desirable to build this ship at the appropriate time under the wholly adequate provisions of existing law which authorize payment of a construction subsidy and provide for private financing, with Federal insurance, of the ship mortgage. However, in this particular case, the Bureau of the Budget does not object to special legislation incorporating these features of the Merchant Marine Act, subject to the understanding that enactment of such legislation would not be construed as conferring a priority for appropriations for the ship without regard to other scheduled ship construction.

I do not want to ask you to comment on the question of what provisions of law it is under. I realize that is out of your province. However, do you have any idea of what they mean by reference to the appropriate time?

Admiral WILSON. I personally do not. As I have pointed out in my statement, I think the appropriate time is now. That is my own opinion.

Mr. DREWRY. That is all, Mr. Chairman.

Mr. YOUNG. Mr. Chairman.

The CHAIRMAN. Mr. Young.

Mr. YOUNG. Admiral Wilson, I too want to thank you for the excellent statement. I want to direct your attention to the difference in speed of these two vessels that are being authorized here in connection with the possibility of their use in time of war emergency.

I presume at that speed that the present theory would be to let them operate independently at 28 or 33 knots.

Would there not be an advantage to have a uniformity of speed in order that even among ships of that class they could operate in company and with some additional protection?

Admiral WILSON. That would be an ideal, sir, but I doubt that it would be the kind of ideal that could ever be achieved from a practical point of view.

Mr. YOUNG. Then I was curious about what is dictating the difference in the speed of these 2 vessels, 1 for the Pacific and 1 for the Atlantic. The Atlantic vessel, I think, is 33 knots and the Pacific replacement is 28 knots.

Admiral WILSON. I really believe that the difference is based primarily on commercial considerations.

Mr. YOUNG. As to whether or not it can be operated within reasonable limits of economy?

Admiral WILSON. It is related to the scheduling. It is related to the competition. I am sure there are many commercial and managerial aspects of it from the point of the steamship line that would determine that.

Mr. YOUNG. I have one more question.

In view of the time lag element in getting these ships with the authorized appropriations and getting them in operation, is it your opinion that under the circumstances this present program is adequate for our foreseeable needs?

Admiral WILSON. Of course, that is the kind of question that Admiral Burke is asked repeatedly. We would like many things in the Navy. We would like to see many things done for defense.

I think there is a practical limitation to what can be done and I think that this would make a very important contribution to the overall problem. The fact is that if we had these 2 fine ships and were assured of getting them within 3 years it would be a very significant and major step forward.

Mr. YOUNG. However, you are not passing on the adequacy?

Admiral WILSON. I would not come up next year and say we did not need two more if that was the subject of the hearing, but this would make a very significant contribution.

Mr. YOUNG. Thank you, Admiral Wilson.

That is all, Mr. Chairman.

Mr. MILLER. Mr. Chairman, before the admiral goes I would like to clear up a point in my own mind if I may ask a couple of questions.

The CHAIRMAN. Yes, sir.

Mr. MILLER. Admiral, I get confused. We people talk about the application of atomic submarines and the application of nuclear energy in the propulsion of ships, automobiles and planes. Is it not true that all we do is to replace the source of heat—the boilers? The atomic

energy is the source of steam but isn't the actual propulsions of the ship through conventional type steam engines or turbines?

Admiral WILSON. That is absolutely correct, sir.

Mr. MILLER. In other words, there is no great mystery about it. There is no new type of energy that is being developed.

Admiral WILSON. That is right.

Mr. MILLER. We have internal-combustion engines where an explosion drives the piston down that we can translate into rotary motion and that is in the automobile engine or the diesel. We use turbines, generally, at sea today, and there is no new application of energy. It is merely the replacement of the plant that creates the heat and because of a breakdown in the atoms you can get a great deal of heat out of them and transfer that heat into steam.

Admiral WILSON. That is correct, sir. It is merely in the heat generation.

Mr. MILLER. Is not that why you make the statement that you cannot get more speed?

Admiral WILSON. That is correct.

Mr. MILLER. You cannot get more speed out of a ship with atomic energy than you can out of oil because the things that give you the speed, the revolutions of the propellers, are driven by the same force, the steam through the turbines or the reciprocating engines, whichever it is?

Admiral WILSON. It is even difficult to get the same speed, because the steam side of nuclear propulsion, as it has been developed to date, is less efficient than the steam side of an oil-fired propulsion plant. You have great problems there in the matter of sealed circuits, of prevention of radiation, and heat transfer itself, so that the steam side of a nuclear propulsion plant from the point of view of pure steam engineering is not very modern.

The CHAIRMAN. Thank you very much.

The next witness is Mr. William Francis Gibbs, naval architect and marine engineer, Gibbs & Cox, Inc., New York.

Mr. Gibbs, do you have any associates you desire to bring up with you?

STATEMENT OF WILLIAM FRANCIS GIBBS, NAVAL ARCHITECT AND MARINE ENGINEER, GIBBS & COX, INC., NEW YORK, N. Y.

Mr. GIBBS. No, I do not.

The CHAIRMAN. You may proceed, Mr. Gibbs.

Mr. GIBBS. I am here simply to answer questions. I have no statement to make, but if you would like me to make a statement, I would be delighted to talk.

The CHAIRMAN. Mr. Gibbs, the committee is honored to have you as a witness. I do think the committee would appreciate such statement as you care to make on the subject of these bills now pending before the committee and any observation you might have on the discussion that has taken place in this series of hearings.

Mr. GIBBS. I am generally familiar with the discussions that have taken place, that is, the statements made by the various owners, who have appeared before you, and I was present when Admiral Wilson made his statement this morning. I consider that Admiral Wilson's statement, representing the Department of Defense and the Navy, is

one of the finest statements that I have ever read on this subject. It is far and away ahead of any summary that I know of. I can tell you that I concur with every word of it.

His answers to your questions, without any doubt, were in line with the statement that he made and I concur with those. I think that you can have little idea, even from his statement, of the value of these great ships in time of war.

I happen to have had a practice that particularly deals with these great ships. I have noticed the performance of the great ships that were used by our allies in two World Wars.

I have always lived in New York and had an office where I could see them going out and coming in, and I can assure you that had the two large Cunard ships not existed in World War II it would have made a tremendous difference in the troop lift and the safety of that lift.

The facts are, Mr. Chairman, that the speed of these ships is of vital importance in eluding submarines. Admiral Wilson pointed that out to you. A submarine has to be in a position so that, as we speak in seagoing language, the two ships are on a collision course and then they have to do some pretty straight shooting. That is very difficult with a high-speed ship.

Let me illustrate that by the performance of the *United States*, and, Mr. Chairman, when we start on the *United States* you will have to stop me because I won't stop myself. The *United States* has made a round-trip voyage across the Atlantic at a speed of 35 knots. It has made a one-way voyage at 35.59 knots.

To show you how that compares with the speed of ships generally, the *United States* broke the record by 3.9 knots. It took the record away from a ship that held it at 31.69 knots. In other words, after a hundred years of development of transatlantic high-speed passenger liners, when the speed was above 30 knots, the *United States* put on an improvement in speed of 3.9 knots when before that time the record had only been broken by a maximum of 1.8 knots.

I realize figures are difficult to follow, but these are simple figures.

The difficulty of a submarine hitting a ship at any speeds like that is simply terrific. Remember, the ship would not be running on a set course. It would be zigzagging.

The ship, in about seven times around the world, in other words, something near 800,000 miles of high-speed operation between light ships, has averaged a speed of 31 knots for all the running it has done. That is when it has not been slowed down to get into port, because oftentimes it gets toward this side running to the west and toward the other side running to the east and they slow down to make a time of arrival, but when the ship has been running with the limitation of the schedule it has averaged 31 knots.

As you probably know, the North Atlantic is the roughest water that ships go through practically, the North Atlantic and the North Pacific, and in spite of that the ship has averaged 30 knots every day that it has been at sea in about something over a thousand days, and in only about less than 7 percent of the time has it made less than 30 knots for a day.

That shows the great independence that it has in bad weather, an extremely important thing in North Pacific and North Atlantic operations, because it means that it can keep on going in bad weather.

All those facts add up to this: that if you want a super troopship, as Admiral Wilson has described, you have one in the *United States* that is unrivaled.

One of the things that he points out are certain other characteristics which I can emphasize to you.

The greatest danger in war or peace in big ships is the danger of fire. There is no more serious danger. In the *United States* the ship is immune to fire. It is literally absolutely true that the only things that are made of wood in the ship or are combustible are a layer of wood about 2½ inches thick on top of the butcher's chopping block, and the pianos. There is nothing else that is combustible in the ship. You can go into a stateroom and pile your luggage in the middle and set a match to it and when you come back in 3 hours it will have burned out. The room will be black with smoke, but not even the curtains will be burned.

That is one of the greatest advantages in time of peace and war and that is why the Admiral referred to the fact that this ship or a ship of this type is so invaluable, because it is ready instantly to load troops on and you know that you have all of the safety provisions that you would have in a carefully converted ship.

Remember, the subdivision of the *United States* is far in excess of the subdivision of any other large ship. Its power of survival is infinitely greater and it has provisions for refrigerated cargo and other refrigerated stores and dry stores sufficient to handle a full ship of troops, which is about 12,000 to 14,000, depending how you put them in, on a long voyage. It has speed, and it has been said publicly by the Navy that the ship will make 33 knots on a run of 10,000 miles.

The Navy has not said everything it will do nor do I intend to say that here, but the difference that there is between this ship and a nuclear-powered ship is something that Admiral Wilson pointed out. However, I do not know whether you realize just what the difference is.

In a ship of this size and speed with its enormous cruising radius, you have an ideal ship for the purpose intended.

Let us go back a moment, if I may, and tell you the origin of the ship. The origin of the ship was that General Franklin, after World War II, when he got back into harness in the United States Lines asked my brother and myself to talk with him about a new ship for the Atlantic. This was in 1946. He said, "Do you think that you could do a ship that had berths for about 2,000 passengers and had a speed sufficient to make a two-weekly round on the Atlantic, which is 28½ knots, which is what the *Queens* do, and have a fuel consumption very much lower than the British ships; and in addition to that a ship that would be ideal from the point of view of the Navy for use in time of war as an auxiliary?"

Bear in mind that our firm has done work for the Navy for many years and we are very familiar with their requirements.

He said, "As far as I am concerned you have carte blanche to do that."

And he undertook to finance a long-term design of such a ship.

We, therefore, developed it after consultation with the Navy so that it had everything that the Navy felt was desirable in the first instance—speed, radius of action, fireproof qualities, subdivision, and

arrangements so that it could be readily armed as the Navy might determine desirable.

The result is that that ship is a naval auxiliary primarily. The passenger equipment of the ship has always been considered secondary.

None of us knew at that time what such a ship would do on the North Atlantic commercially, because the great advantage of the possible arrangement between the Government and the shipowner on a ship like that is to make the ship cost for maintenance by the Government nothing, and the owner puts in a substantial part of the first cost of the ship.

In the case of the *United States* roughly it was one-third for national defense, one-third under the Merchant Marine Act, and one-third for the owner.

The result of all that was that it depended largely on what the United States citizens thought of the ship. Would it be successful? We had never had a premier ship for more than a hundred years. Nobody knew what the so-called blue riband would mean. Nobody knew what people would think of this type of ship. I am sure that General Franklin had some doubts as to whether all the promises would be fulfilled.

The ship went into operation and it is interesting to know that the performance of the ship has far transcended what anyone thought would be the most popular result.

The ship has carried more than the average of the two *Queens*, although the *Queens* are larger. In other words, I am saying that, if you add the carryings of those 2 ships together and divide by 2, you will get the average that they do. Compared with the *United States*, the *United States* has always done better. The popularity of the ship to me has been perfectly startling.

I feel sure, Mr. Chairman, that members of this committee represent all parts of the country. I was very much interested when it came out and prior to its coming out to obtain the comments in the newspapers of the United States about it, and these comments surprised me. The comments I was most interested in were the comments in the small town and city newspapers in the middle of the country where you do not think that the merchant marine has the appeal that it has on the coast, and I have hundreds of those clippings. These are editorials.

You know perfectly well that an editor of a small-town newspaper knows what the town thinks about most things. He talks to the president of the bank and all the other leading people and knows people generally, and in all those clippings not one single clipping criticized the building of the ship. On the contrary, they praised it and praised the authorities in Washington for making that ship available. That occurred before and after the ship went into operation.

All those things combined seem to me to make a very strong case when you couple it with the expert testimony of Admiral Wilson which he gave this morning, and it means that here is a case where private firms can share the cost of national defense, a unit of national defense of great importance, with the Government and reduce the Government's burden in the first cost, and make it possible to have that vessel available without cost to the Government during its life.

Let me go back now to the nuclear phase of this thing.

When you have a ship for that purpose, as the Admiral said, it is a matter of running such a ship from point to point. You load it with troops in this country, let us say, or you go abroad to bring repatriated people and it comes back to the United States. The ship has an enormous cruising radius and high speed. It can do all of that with perfection.

I can only tell you that in reliability the ship has never stopped at sea because of a mechanical defect and has never been late leaving port because of unreadiness of the machinery to proceed, and with the speed that it has maintained it is the greatest long-distance test that any ship has ever been subjected to.

I say to you that when you have that type of ship and it can be had at a far cheaper cost than a nuclear-powered ship and all of the advantages that go with it, you hesitate to suggest that the ship be powered with nuclear power at an enormous increase in cost and a very large increase in operating cost.

Let me define my own position, because you must realize that I am here by the request of the committee and not on behalf of any particular one of the owners who are contemplating these ships, although we designed them. My view is that it is very important to insure that we do as economical a job in the national defense as we can do.

If the Navy, as Admiral Wilson says, wants these ships, and he has made a perfect case for them, then I would produce the ship that he wants for the least investment of Government money and the least cost in operational subsidy, because, if you attempt to build a nuclear ship, you will have to take in somewhat the extra cost of the fueling and operation which are incident, as we now know to nuclear power.

I say this and it is again self-evident, because nothing could be more delightful to me, Mr. Chairman, than designing a super-*United States* with nuclear power. I love to do the advance things. We are in the habit of doing them and I look forward to big, fast ships with nuclear power with keen anticipation, but, after all, you want my opinion on these things and I am giving it to you. I think that the statement made by General Franklin and I think the statement made by Admiral Wilson as to the desirability of sticking to the conventional way of doing it in view of the great cost is important, but I think there is another element which may be more important than the cost.

I do not assume, Mr. Chairman, that you or members of this committee have pinpointed the start of war yet, and I know I do not know when it is going to happen and I am perfectly sure that Admiral Wilson does not know, and I am quite sure even when we go even higher, to the President of the United States, that he does not know; but, because we do not know, it may come early or it may come late; it seems to me common wisdom to prepare for it early, because, if you prepare for it early, you can deal with it if it comes late, but, if you deal with the problem on the theory you are going to have 5 or 10 years to get ready for a war and a war occurs the day after tomorrow, you are in a pretty tough spot. The doing of a nuclear job of propulsion on a ship like this means an overhaul of the complete design of the ship. There is no question about that at

all, because in these ships the powerplant is an integral part of the ship. Do not think that it is a hull and you put machinery in it. Everything is tailored to fit a final job.

I say of my own operation, because it happens that the chairman introduced me as a person who was a naval architect and marine engineer, that I often describe myself as a jack of all trades and master of none, but you would be surprised how important that is because, if you are going to do one of these great ships, it is an extremely complicated thing and you simply have to control every feature of it. The machinery is as interesting to me as the hull and I feel in my ignorance equal facility with either one, but what happens is that you have to put this complex mechanism with all the creature comforts and everything else that go in, you have to do that as a whole, so that, when you are talking about powering the ship with a nuclear powerplant, you bring in problems of stability, you bring in problems of propulsion, you bring in all kinds of problems that we have to deal with from the ground up.

Mr. Chairman, there is no easy way to do that. The reason that the *United States* is the ship that it has proven to be is the fact that great effort was made on the design.

General Franklin gave us 2 years and paid out hundreds of thousands of dollars to us to perfect the design of the *United States.* The *United States* has in it more man-hours of engineering, including that of the shipyards and the component suppliers and ourselves, far more than any other ship in the world, by many times more.

The reason it is successful is that that engineering was done and done carefully and without undue haste.

It is very difficult, Mr. Chairman, to speed up the processes of the human mind. You have to have time to think and you have to think very carefully on a problem as complicated as this. There is not any question that, if we went to nuclear propulsion in a ship like this, it would be a long delay. I cannot tell you how long because I do not know, but it would be years.

I think that the Russians did us a great favor when they fired their sputnik and gave us a sense of urgency, and if that sense of urgency means anything and we have a good way to do something and do it quickly and do it cheaply, and with an example which we can all look at and evaluate and know what it can do, I think that is probably the thing that in the long run you would do.

Admiral Wilson suggested that he did not want to be understood as saying that these two ships were all that was needed for defense, but it is certainly a step and I would look forward to doing the design of a nuclear super *United States.* That certainly could be done, can be done, will be done in due course, but it is a long and very costly procedure if you are going to make a success of it.

Therefore, I say to you, it seems to me that that is the kind of thing where to hesitate you incur the greater cost and the delay when you have heard from the Defense Department that this ship suits them so well, and we know that it does.

Mr. Chairman, you may ask me: "Well, this ship was designed more than 6 years ago, 7 years ago, and is it up to date? Is it in advance? That is, can we advance the new ship over the ship that was done 7 years ago?"

My answer to that is this: That the ship contemplated by the specifications and plans that you have received is a ship in advance of the present *United States.* To you, looking at it, you would say it looks like the *United States.* A passenger walking on the deck would say, "This is very similar to the *United States.*" But in an enormous number of places throughout the ship improvements have been made wherever we could find from the 5 years of operations that those improvements were worthwhile and would reduce maintenance.

We have better materials available now than we had 6 years ago, and all of these changes, I am able to tell you, mean that the ship that you have in contemplation and have the price on is a ship well in advance. The principle is the same. There are no extraordinary principles involved. The shape of the ship has proven extraordinarily good in North Atlantic operation. It has the reputation of being the best sea boat on the Atlantic and I can only say to you that after it came out the *Queens* were taken in and fitted with stabilizing fins, which is a tribute to the performance of the ship.

I say all of those things seem to me to add up to the fact that there is truth in what Admiral Wilson has said and what the preceding witnesses have said, and what the members of the committee and the chairman have said: that you have a unique opportunity here to make a remarkable advance in the direction of national defense and at a minimum cost.

Mr. Chairman, if the Government and owners should insist on a nuclear-powered ship, I would simply be delighted, because nothing would suit me better than to design such a ship if I were called on to do it. I would get a great thrill out of it, but I know, if it is to be successful, the time, effort, and cost that will go into such a ship. Ultimately such ships will be done but I think that you proceed rather slowly in an advance of this kind when you know that the Navy and the Maritime are blazing a trail, and to jump in and do this at this time would be a very costly and delaying thing and I do not think the national defense should cost any more or be delayed unnecessarily.

I think we should try to do our part to avoid it.

Mr. Chairman, you asked for this. I did not suggest it.

The CHAIRMAN. Mr. Gibbs, this has been the most interesting series of hearings that this committee has had in some time and particularly this morning; and, in the light of the reports that the chairman of the committee has received from this administration, my only regret is that those who wrote the reports and sent them down here could not have been here to hear Admiral Wilson's testimony and your testimony.

I know of no way we can get it to them because I am certain they are not going to read in detail what the transcript shows. I do not think so. That is regrettable to me. The reports have come down as they have and there is not an easy way to get this to those who control the administration. I regret it very much.

Mr. Garmatz is particularly interested in the phase of nuclear energy, so I will yield to him at this time.

Mr. GARMATZ. Thank you. This could probably go on long into the afternoon.

I have one question I want to ask you. Do you have any connections or have you played any part at all with the nuclear Navy ships?

Are you designing them or engineering them, or are you being consulted on the *Savannah* or any of those?

Mr. GIBBS. We have been consulted by the Navy.

Mr. GARMATZ. Have you been consulted on the detail, or just generally speaking? In other words, will you get any knowledge or any advantage out of the *Savannah* that could be used on a commercial ship?

Mr. GIBBS. Oh, yes; there is no question about that at all. The *Savannah* is one of the, let us say, milestones that first looks in the commercial direction.

With the Navy ships, the commercial considerations are secondary, as you can well imagine, but in the *Savannah* that is the first attempt at a commercial ship.

I am sure Mr. Morse will tell you that they do not think of the *Savannah* as a commercial ship, but it will be necessary to experiment by building a series of these powerplants of varying types before you will find the answer to the best type for commercial service.

The CHAIRMAN. Let me interrupt at that point.

That was the view of this committee. It was the thinking of this committee that we would demonstrate farsightedness. We realized all you have said about the *Savannah*. It is an experiment. It is an effort to look into the future and to attempt to find what can be developed. We knew that the ship was not as of this day a practical ship, but, unless we do these things, we will be always a backward nation.

Mr. GIBBS. I concur with you, Mr. Chairman, fully.

The CHAIRMAN. And we had a hard fight to get the *Savannah* underway.

Mr. GIBBS. Let me tell you something. I am used to hard fights. You never do anything in this world that is different that you do not have nearly every man's hand against you. It does not make any difference whether it is ships, whether it is medicine, or religion, or what it is. You will find that as soon as a man comes up with a new scheme of things he makes everybody mad because they have to think and people do not like to be forced to think. Then when they go through that process they join all together against this individual and try to knock him out. That is pretty good, because, if it were not so, you would have all kinds of queer things going on, even queerer than you are familiar with.

The CHAIRMAN. I reckon there are going to be a lot of people kicking and fighting when they go into heaven because they did not go in the old way.

Mr. GIBBS. I think that is exactly right, but I think, if the idea is sound, the man who usually proposes it will in the end win out if he has the joy and pleasure in the job that I do. I have no complaint about opposition at all. I love it.

The CHAIRMAN. Mr. Garmatz?

Mr. GARMATZ. That is all.

The CHAIRMAN. Mr. Allen?

Mr. ALLEN. Thank you, Mr. Chairman. I, too, have enjoyed the statement, Mr. Gibbs. I am trying to correlate to some extent in my own mind the degree of safety that additional speed produces and the cost of speed and whether the amount of dollars involved makes certain speeds worthwhile or makes others too expensive.

Do you have any thoughts as to what kind of yardstick you can set up in that regard?

Mr. GIBBS. I would say to you, in considering the total cost of the ship and its intended naval use, that the cost of the speed in the *United States* can be justified many times over by its reduction in target that it gives to a submarine.

That was studied very carefully by the Navy on the first one and I do not have in my mind at this moment just the proportion, but I would say to you it is many times the safety that results from 20 knots and well within the difference in cost of the ship.

Mr. ALLEN. The particular problem at the moment is that we have 1 ship proposed at 28 knots and another at 33 knots or thereabouts and, if it is worthwhile for one ship, why is it not worthwhile for the other ship, just considering now the cost to the Government?

Mr. GIBBS. Mr. Chairman, that is fairly easy to answer.

One of the things that makes this construction of these ships possible is a partnership between an owner who operates ships for profit and the Government who wants to have the ship available for national defense.

In the design of ships all ships that are carefully designed are designed for an owner for a particular purpose and the *United States* could not be used economically on the Pacifiic by the APL Lines. Their trade is a different trade. The length of the voyage is a different length of voyage. The cost of operation of the ship is different. The result is that I think that the necessity obtains that in these particular ships they should have an advantage both commercially and in national defense. If it was purely national defense you would put the *United States* on the Pacific as well, the *United States*-type ship with high speed, but it is not possible for an owner out there to handle that kind of a ship with its enormous capacity and speed on the run that they have.

The 28 knots that has been talked about here is the normal maximum for such a ship because that is a twin-screw ship and, when we go above that figure or approximately that figure, we get into a situation where probably a 4-shaft ship is indicated and the jump from 2 shafts to 4 shafts means a big increase in cost and also in cost of operation with respect to the engine crew and all the other things that go with it, so that you have a natural dividing line there; first, that the ship suits the owner for his trade, is within his operating capabilities of earning, and at the same time is a very good ship for the Navy, as you have heard Admiral Wilson say.

This is just a recapitulation, in other words, of what he testified to this morning.

Mr. ALLEN. I take it then that you could not build more speed into that ship at a cost to the Government only without also increasing the cost to the owners?

Mr. GIBBS. That is correct.

Mr. ALLEN. Is that because of more displacement?

Mr. GIBBS. I prefer not to particularize. It is a new design of ship.

Mr. ALLEN. I have one other question if you can help me. Have you any idea what a purely commercial version of the *United States*, suitable to the trade on 30 knots, would have cost if built in a foreign yard at the time the *United States* was built?

Mr. GIBBS. I would not undertake to say. That is a subject where, for every man that talks about it, you have a different opinion. My job is to design ships for owners the way they want them designed and I leave the financial phase of it and the determination of subsidies and so forth to people of far greater intelligence than mine.

The CHAIRMAN. Mrs. Sullivan?

Mrs. SULLIVAN. I have no questions.

The CHAIRMAN. Mr. Mailliard?

Mr. MAILLIARD. Mr. Gibbs, following Mr. Allen's questioning, would it be right, then, to say that if for national-defense purposes we wanted a higher speed in the APL ship and were willing to pay for it, we could not do so without increasing the operating expense of the ship?

Mr. GIBBS. That is right.

Mr. MAILLIARD. In other words, you could not operate a four-shaft ship at the speed they want to operate at without it costing more money than the ship you have designed?

Mr. GIBBS. That is right, provided the amount of money that they are going to put in was kept where it is now. That amount of money would have to come down to balance off increased cost.

Mr. MAILLIARD. Perhaps it is not applicable on these bills, but in designing a nuclear-powered passenger vessel what would be the effect of the essential difference in the amount of space that would be required for the nuclear part of the machinery and the design?

What I am thinking of is would it enhance the utilization of the space for a passenger vessel not, for instance, to have the updrafts that you have in the conventional boilerroom?

Mr. GIBBS. I would think that there was very little difference between the two methods of propulsion in the effect on the passenger carrying of the ship, but that is a subject that you could only determine with any accuracy when you got to the point in design where you dealt with the refueling operation of the nuclear ship. You have to take out the used core, the core that has been, if you want to put it, burned up, and put in a new core, and the handling of that very hot material, hot in the sense that it has a tremendous amount of nuclear emanations which are dangerous to life, involves a very complicated question.

The easiest way that we know is to be able to come down from above and pick up the used core and lift it out. That is the method used or contemplated by the Navy and is a method contemplated in the *Savannah*, and is almost universal because it is the only way that is simple to do it.

We have studied a great deal about this nuclear propulsion business because it is a matter of great interest to me personally, and you can conceive of possibly other methods.

However, in the present state of the art, before you lay out the type of machinery that you would put in, it is very difficult to say.

I would say the safest view is that it would not affect the capacity for useful areas very much.

Mr. MAILLIARD. Would I be right in interpreting from your testimany here that it is your feeling that we ought to have more experience with the *Savannah* as an experimental ship before we proceed too hastily?

Mr. GIBBS. I think that that is a reasonable assumption.

My difficulty, as I have stated it to you, and the difficulty that Admiral Wilson who preceded me stated, Mr. Chairman, is the enormous cost, and I think I emphasized more directly for you the time required. If you do not mind the cost and you have plenty of time and you people know exactly when the war is coming, then I think that you can work on a nuclear design. It would require great care. It would require a great deal of engineering to do the job, but our information is not as good as it would be after we had a series of plants like the *Savannah*, just as the chairman alluded to here a minute ago, with which I am in complete accord.

For instance, there was reference here by the preceding witness to a question that this nuclear plant was just the same as a steam plant so far as turbines and gears were concerned. Well, there is a great deal of talk today and Maritime is investigating the subject, whether the more rational way to approach it is not to use a gas turbine instead of a steam turbine.

That is a perfectly possible way to do it. It requires development and they propose to develop that.

That is the kind of study, step by step, that leads up to the point where we get enough definite information so that we can say, "Well, a large power ship is possible."

I can tell you this: that it would be years before you could build such a ship and have it as commercially attractive as the *United States* is for the same speed and power.

One thing more, Mr. Chairman, I think that Admiral Wilson made a very good point when he said that it is not a question of speed at all in the ship, that speed is regulated by entirely different considerations. The speed is regulated by the hull and, if you said to me that you wanted a super *United States* and you wanted it driven by nuclear energy, I would come up with a ship that would be larger and more powerful than the *United States* and would go much faster, and might have more capacity, and when you saw the cost tag on such a ship, you would have to hold your hats on. I can assure you of that, but please understand, nothing would suit me so well as the Government to tell me, "Now, Mr. Gibbs, you have had some little experience in these things. We would like you to design a ship that would put the *United States* in the shade."

Gentlemen, it is perfectly possible to do it either with conventional machinery or with nuclear machinery, but it tends to go away from the commercial and get into the purely uncommercial operation.

Does that answer your question?

Mr. MAILLIARD. It certainly does.

Mr. Chairman, may I say it is always a pleasure to listen to Mr. Gibbs, not only as an engineer, but as a philosopher.

Mr. GIBBS. I tried to told myself down, and, Mr. Chairman, I want to record the fact that I used no profanity this morning whatever. I feel that has handicapped me.

The CHAIRMAN. Mr. Gibbs, I think the audience has enjoyed your testimoney as well as the committee, and I want to express, on behalf of the committee, our appreciation for your attendance. I want to thank you very much for coming.

I would like the record to show that the distinguished former member of this committee from California, Mr. Shelley, who is now a member of the Appropriations Committee of the House and is

greatly interested in ships and shipping and the development of the merchant marine, was present at the hearing.

The committee will stand in recess until 2:30.

I want the record to show that I am particularly pleased with the attendance of the membership here today.

We stand in recess until 2:30.

(Whereupon, at 12:20 p. m., a recess was taken until 2:30 p. m., this same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

The witness this afternoon will be Mr. Harry W. Pierce, vice chairman of the board, New York Shipbuilding Corp., Camden, N. J.

STATEMENT OF HARRY W. PIERCE, VICE CHAIRMAN OF THE BOARD, NEW YORK SHIPBUILDING CORP., CAMDEN, N. J.

Mr. PIERCE. Mr. Chairman, my name is Harry W. Pierce. I am vice chairman of the board of directors of the New York Shipbuilding Corp., of Camden, N. J. With your permission, Mr. Chairman, I am just going to work from some notes here. In view of the excellent testimony on many points to which you gentlemen have listened, I am going to try to stay off those grounds and limit my remarks to certain features of the bidding procedure previously conducted under the Maritime Board with respect to particularly the replacement of the steamship *America* for the United States Lines, and to express my views on the threat to the Federal competitive bidding system if new bidding is legislatively required for the contemplated vessel.

Construction of the proposed superliner will take about 3 years, and I think the previous testimony has made it pretty clear that the new vessel is needed as soon as possible to meet defense requiremnts and that the steamship *America* should be retired as near to its 20th birthday as practicable. With that in mind, the Maritime Board issued its invitation for competitive bids on December 10, 1956, some 14 months ago. It is my understanding that the Maritime Board made this decision in the belief that this project was so large and that the amount of Government subsidy or assistance would be so difficult to determine, as well as the need for promptness so great, that a precise request for the appropriation of funds and a final decision as to the construction would be speeded by advance knowledge of definitive construction costs. Only by this approach could the contractual amounts be known in advance and the subsidies and defense allowances determined in advance.

All bidders participating in that bidding competition were informed of these objectives and were told that the precise title and section of the Merchant Marine Act or other public law under which the ship might be built had not yet been determined. The bidders in that competition were further informed that in order to provide a reasonable time to make subsidy determinations, which come of course from the estimates of foreign costs, to compute the cost of the national defense features, to negotiate the necessary contract with the operator and obtain an appropriation from Congress, that it would be necessary to have the bids remain firm for a much longer period than is customary. In fact, each bidder when submitting his

bid was required to sign an agreement, and I will quote from paragraph 5, sheet No. 2, of the bid form:

The undersigned further agrees (1) that it will not withdraw the foregoing bid prior to 6 months after the date of the opening of bids hereunder, and (2) that in the event said 6 months' period shall expire without an award having been made to the undersigned, the foregoing bid shall remain in full force and effect until an award is made to the undersigned or until his written notice of the withdrawal of said bid shall have been received.

In addition, the successful bidder was required to submit estimates on the same basis for an equivalent commercial ship without defense features, in order that the value of the defense features of the proposed design could be determined by the difference of those two bids. In the case of this ship, the defense features were of such a character and extent that an estimate of an equivalent ship, eliminating such features, involved actually calculating the construction cost of a ship of substantially different design. In fact, that design which was prepared by the Maritime Administration was of an entirely different ship, which was, however, intended to be the commercial equivalent for that run.

Those were the understandings and circumstances under which the invitations to bid were issued.

The bids were first scheduled to be opened on January 31, 1957. That was extended to February 28 and then further extended to March 21, 1957. Thus, actually there was a total period of 90 days allowed for preparing and submitting bids, and all interested bidders certainly had an adequate opportunity competitively to bid against each other. A further delay of this nature to do over again what has once been fairly and adequately done would not only be unjustifiable but would, in my opinion, be harmful if we wish to preserve a vigorous and accepted system of competitive bidding.

Bids were received from all shipbuilders with adequate facilities necessary for the proposed ship. The New York Shipbuilding Corp. was the low bidder by some $2 million. We also made up the required estimates of the commercially equivalent ship, being furnished the plans and specifications by the Maritime Administration.

Under the terms of the bid, the New York Shipbuilding Corp. was bound to keep its bid in effect from March 21, 1957, the date of the opening, until September 21, and not to withdraw the bid thereafter until written notice of such withdrawal had been sent to and received by the owner and the Maritime Board.

Under date of September 12, 1957, the New York Shipbuilding Corp. notified the United States Lines and the Maritime Board in writing as follows:

Paragraph 4 of the bid form submitted for the construction of a vessel to replace the Steamship *America* provided that in the event award is not made within 6 months after the bid, the bid shall remain in full force and effect until an award is made or until the bidder's written notice of withdrawal is received. The 6 months' period above referred to will expire on September 21, 1957, and a statement of New York Ship's position regarding the bid appears in order.

Inasmuch as there has been progress toward award of this contract and that bills have been introduced in the Congress providing for an appropriation for its construction, we have no immediate plans for the withdrawal of our bid. In the event that circumstances should arise which make it necessary for us to change our position, you can be sure that we will consult with you before doing so and will give at least 30 days' notice.

We trust that this information will be helpful to you and that plans will materialize so that construction of this vessel can begin at an early date.

That was signed, of course, by the corporation.

At present, New York Ship remains bound by its bid and has not given the 30 days' notice described in its letter of September 21, 1957. It should be noted, of course, that while its bid is in effect New York Shipbuilding Corp. was bound not to seek any other ship construction for its large dock in which we are presently building the new carrier, the *Kitty Hawk*.

New York Shipbuilding Corp. is emphatically in favor of competitive bidding as an important element of a fair procurement policy with respect to ship construction, both for merchant marine and military purposes. While it is recognized that in certain instances the allocation of ship construction and the negotiation of contracts without competitive bidding has been followed and may be justified, such departure from competitive bidding policies should be made only for the most compelling reasons and after the most careful consideration.

Since World War II, and excluding World War II contracts completed in the period 1946 to 1948, New York Ship has been the successful competitive bidder with respect to $300 million worth of Navy construction and conversions, the largest amount of such business won in competitive bidding among the major private shipyards. Two other shipyards have secured substantially larger contracts in the aggregate because of allocations and negotiated contracts without competitive bidding. This comparison, gentlemen, is not presented in the spirit of complaint but merely to emphasize that New York Ship believes in the competitive bidding system and has operated for some years under that system to the mutual benefit of the United States, the various owners, and to the stockholders of the company.

We feel strongly, however, that if competitive bidding is to constitute a successful procurement policy it must be fairly administered as a long-range policy and not subjected to variations and modifications in particular instances with a view to individual advantage, either to the Government or to the bidder. We believe that competitive bidding as a procurement policy can be sustained only if the bidders know in advance that the competition will be fairly conducted and that once all statutory or regulatory bidding requirements have been fully met that a binding award will be made. Nothing will destroy competitive bidding as a legislative procurement policy more completely than for competitive bidders to fear that there will be a second auction held whenever an excuse can be found. If faith in firm awards to low bidders, assuming their competence, is ever weakened or destroyed, competitive bidding as a policy will be a memory of the past and pretty much an illusion in the future.

The foregoing comments have been made on the assumption that the new passenger superliner will be built in accordance with the design upon which bids were solicited and which involved conventional propulsion, and the eminent gentlemen who have preceded me here have given many of the very strong reasons why that should be done in this case.

H. R. 9654 suggests that the new vessel should be redesigned to have nuclear propulsion. Since the New York Shipbuilding Corp. is now engaged in the construction of the first nuclear propelled commercial vessel, the ship that was mentioned several times this morning, the

combination cargo and passenger ship nuclear ship *Savannah*, perhaps my comments may be of interest.

In the studies that we have made for the Maritime Administration up to the present date and in the negotiations which led to the execution of the construction contract that we very proudly have now, we have become reasonably familiar with some of the many problems to be solved in the use of nuclear propulsion in a commercial ship—and I would like to stress "commercial"—which has to sail the high seas with passengers. Resolution of these questions in the case of the replacement of the steamship *America* would involve even greater delay. Many questions, not only concerning the technical aspects but questions of liability, insurance, safety to the passengers and crew, entrance into foreign harbors, are being discussed with the many agencies involved. The construction and operation of a commercial ship with nuclear propulsion differs markedly from the construction and operation of a nuclear propelled naval vessel, for there it is the one agency, the Navy, who can make all decisions and accept wartime risks. A commercial ship, that is, the nuclearship *Savannah*, is being built not only to test the feasibility of nuclear propulsion in a commercial ship but to develop answers to those very questions and to obtain data as to the actual costs and also the conditions of operation.

Public acceptance is another unknown quantity. The nuclearship *Savannah*, I think we can fairly say, is going to break ground on a wide number of fronts.

In the present state of development, the proposal to use nuclear power in a ship of the size and type of the *United States* would, therefore, seem premature. We need many answers from the operation of the nuclearship *Savannah* before embarking on a project of the magnitude of the superliner. Aside from a tremendous increase in the initial investment and in the present state of development a very considerable increase in the cost of operation, all of which has been well developed this morning, we do not believe that it would achieve the main objective of House Resolution 9654, namely, the prevention of avoidable powerplant obsolescence. As a matter of fact, there is good reason to believe that obsolescence is more of a threat to current nuclear reactors than to the conventional propulsion machinery. Our present concepts of nuclear plants will in all probability undergo considerable change, development, and improvement in the next 5 or more years. Several of those possibilities have been discussed this morning. There are few people who have done more than hope that within the next decade nuclear power may become competitive in the economic sense with our highly developed oil-fired plants. It would therefore seem quite probable that the reactor installation of today will be outdesigned and become obsolescent far sooner than the conventional plant we have achieved after a great many years of development.

Mr. Gibbs is in a much better position than I to discuss, and in fact has discussed, many of the broad technical problems of the application and the fact that it would involve a completely new design, starting from scratch, to work out the tremendously complicated problems of a ship of this size. There is, therefore, no reason for the Congress, legislatively, or the Federal Maritime Board, administratively, to consider a second competition in this case, since it appears evident that

the replacement of the *America* should be a duplicate of the *United States*.

There were certainly an adequate number of competitive bids from competent and responsible shipyards. Each bidder was given adequate time to prepare and submit the bid. Each bidder submitted firm bids and fully understood that there would be a delay in making the award. The New York Shipbuilding Corp. as a successful low bidder has already been held fast by the bidding requirement to its bid through September 21. It has further agreed voluntarily not to withdraw its bid until after 30 days' notice to, and consultation with, the United States Lines and the Federal Maritime Board. New York Ship has also been required to prepare and complete a firm calculation and bid on the commercial equivalent of the proposed superliner, which was an expense and burden required only of the low bidder.

The provision of H. R. 9342, H. R. 9351, and H. R. 9576, permitting the Federal Maritime Board in its administrative discretion to have the proposed vessel constructed "without further bidding under outstanding bids which have hitherto been made by United States shipbuilders on a similar vessel," is nothing more than an expression of good sense if the competitive bidding policy is to continue as a successful Government procurement policy.

That concludes such remarks as I have prepared, Mr. Chairman. I would be very happy to answer any questions that the committee may have.

The CHAIRMAN. Mr. Garmatz.

Mr. GARMATZ. Mr. Pierce, in your statement, if I heard you correctly, you said that this bid was only valid for a certain period of time, about 6 months or so. Is that right? What I am trying to find out is if you are still within your time limit that was set.

Mr. PIERCE. May I just quote from that statement which we were required to sign in connection with the bid.

Mr. GARMATZ. If I understood, your bid was to last for 6 months. I am wondering whether this time has expired or not for your particular bid.

Mr. PIERCE. The 6-month period from the date of opening has expired, but there is another clause, Mr. Garmatz, that in the event said 6-months' period shall expire without an award having been made to the undersigned, the foregoing bid shall remain in full force and effect until an award is made to the undersigned or until his written notice of the withdrawal of said bid shall have been received. In other words, we could not withdraw the bid in less than 6 months. We have to make a written withdrawal then or it stands good. We have not made such a withdrawal, but in fact have tried to cooperate with the United States Lines and the Maritime by telling them that we will not withdraw without 30 days' notice and consultation with them.

Mr. GARMATZ. As it is now your bid stands firm?

Mr. PIERCE. It does, sir.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. Thank you, Mr. Chairman. Mr. Pierce, is there any great difference between the plans for the *United States* and the plans for the proposed replacement of the *America?*

Mr. PIERCE. There is not much difference between the existing *United States* and the proposed replacement for the *America*. There

is, however, very much of a difference between the proposed new ship and its so-called commercial equivalent. In fact, they are two different ships. The question has already been discussed in part by other witnesses. It is this question of speed, and the commercial equivalent on which we were asked to quote is a 30.6 or 30½-knot ship. That required more than two screws; in fact, it is a triple-screw installation. Other defense features of the *United States*, for example, are in the matter of the extensive use of aluminum in the superstructure, which enabled the designer to keep the weights low, and its is an integral part of that very finely balanced design. However, it is a relatively expensive feature, so that since that was done, to achieve Mr. Gibbs' aim as a Naval auxiliary, the commercial equivalent was designed with a steel superstructure. That additional weight required a change in the beam of the ship. Since that enlarged the ship, it was decreased slightly in length. That also has a bearing upon speed. The relation between the length of a ship and the speed at which it can be economically driven is quite well known. So that you end up with an entirely different ship. We made such a bid.

Mr. TOLLEFSON. When you suggested that the replacement of the *America* be a duplicate of the *United States*, you did not mean an exact duplicate?

Mr. PIERCE. Well, it is essentially the same ship brought up to date with all of the improvements that have been made on the *America* or which are well to make on a newly built ship, taking advantage of all the changes in technology, materials, and everything else. The fact that you have so much of the engineering work done and which can be used, thousands of the purchase orders can be duplicated for the second ship, resulting in a very considerable saving in the cost of construction.

Mr. TOLLEFSON. Would it be a fair question in the presence of Mr. Gibbs to ask you what you thought of this design?

Mr. PIERCE. I would be very happy to join with a great many others in saying, first of all, obviously from the success of the ship and its operation is real proof, regardless of what any of us might say, but it is a very finely integrated and balanced design.

Mr. TOLLEFSON. One other question that comes to mind. Because of conversations that I had with my colleague on my left, Mr. Allen—and this may be taking one of his questions away from him—there was some statement made this morning that as far as a nuclear powerplant in a commercial type vessel was concerned it would not make any difference in the speed factor.

Mr. PIERCE. Not if it generated the same amount of power as the conventional plant.

Mr. TOLLEFSON. As one witness put it here a couple of years ago or so, the propeller does not know what kind of power is turning it.

Mr. PIERCE. It does not.

Mr. TOLLEFSON. Mr. Allen raised the point about jet propulsion possibilities, doing away with the propeller.

Mr. PIERCE. Well, again it is the relative efficiency of getting your propulsive effort. Jet propulsion in water has been used. There is one case where it has certain advantages, namely, in a fireboat, which has to be equipped with tremendous pumps in order to do its function, and fireboats to my knowledge have been built using those same pumps to drive a jet stream of water astern and maneuver more or less like the one thing in nature I can think of, which is the squid.

Mr. TOLLEFSON. Have they worked satisfactorily?

Mr. PIERCE. The efficiency is very much less than the modern propeller.

Mr. TOLLEFSON. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Robeson.

Mr. ROBESON. No questions.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Mr. Pierce, is the bid on the commercial type ship a public bid? If so, how much was it?

Mr. PIERCE. I do not think that it need be a matter of any secrecy. We simply made that, of course, to the Maritime Administration, and the figure was approximately $90 million. We did point out, and I would like to point out to the committee, that a bid of that sort is not strictly comparable to a bid made where you know the ship you may be called upon to build will be at that price and where your vendors and the people that you depend on for your components will have to supply them at that price. In other words, it is sort of a fictitious thing, in that we turn to our suppliers and say, "Now, we must have a good and accurate price," but they know just as we do that the ship will probably never be built. It is not made under competitive pressures, in other words. It is the same thing if you were going after foreign costs to compare with American costs, to ask a foreign yard to submit an estimate on a certain ship which they know they will never get to build. They put in an estimate, but just how good that figure is no one will ever know.

Mr. ALLEN. What was the competitive bid on the ship with its defense features that went in at the same time?

Mr. PIERCE. The corresponding bid was $109 million.

Mr. ALLEN. That would indicate that on that comparison the defense features are $19 million?

Mr. PIERCE. On that basis, which as I say is open to some degree of question, I might at this time point out one approach to this matter of the value of national defense features. We honestly try to make them as comparable as possible. We use exactly the same system of estimating, subject to the difficulties that I have just related in getting the best material and component prices. We came out with this difference of $19 million as the defense features. That is approximately the value of a destroyer. Which is of the greater value to the Navy, everything considered, another *United States* ready for war service or one destroyer?

Mr. TOLLEFSON. Mr. Pierce, without telling us unless you want to, the cost of preparing a bid, would you say that the cost of making a bid on a ship such as this was a substantial thing?

Mr. PIERCE. It was a substantial amount of man-hours and, therefore, money.

Mr. TOLLEFSON. Would you care to give us an estimate, without revealing any trade secrets?

Mr. PIERCE. I appreciate your courtesy, Mr. Tollefson. The answer is rather difficult to give, for another reason. A portion of the estimating is done by people who observe and keep progress records and do routine estimating on many, many jobs, and that is to a certain extent lost in the overhead. When a big estimate of this sort comes along, we do a great deal more than that. We take people from our engineering and drafting rooms, who make a careful takeoff, as we

call it, from all the information available, a detailed study of the specifications and the contract plans, and we try to list actually by weight and size every piece of material that can go into the ship. That is the job which is out-of-pocket costs—the use of all these people over weeks to make this bill of materials.

Mr. TOLLEFSON. Would it be fair to say that the cost of preparing the bid would run into many thousands of dollars?

Mr. PIERCE. I have seen bids run all the way from $25,000 to $100,000.

Mr. TOLLEFSON. The reason I ask this question is because you made some statement with respect to some bid, that you did not know how accurate or good it was, and I would like the record to show that your bid on this ship is the same kind of a bid from the standpoint of accuracy that you would submit on any other invitation to bid.

Mr. PIERCE. It went through exactly the same mechanical and detailed procedures.

Mr. ALLEN. Would you tell us, Mr. Pierce, what the major items were that made up this $19 million difference; in other words, the major items of difference between a commercial ship and a ship with defense features?

Mr. PIERCE. Well, in part it was the one item I have already mentioned, the greater use of steel rather than aluminum throughout the superstructure. It was the reduction, of course, of 1 shaft, 1 engineroom, and all of the machinery components in that engineroom. In other words, it was a reduction in the power of the ship. I believe that there were other simplifications, mostly dealing with weight; that is, the elimination of somewhat more expensive but lighter weight deck coverings. Those were the principal differences that really made up that $19 million. Of course, it also came about and was affected by the change of the dimensions of the ship itself. This commercial equivalent prepared by the Maritime Administration was some 50 feet shorter, and in the case of the ship they gave us to bid about 6½ feet more beam.

Mr. ALLEN. Is it accurate to say, then, that the defense features are characteristics? They are not part of a ship exactly, but if you want a ship with defense features and characteristics you build one ship. If you want a commercial ship you build another, and the difference between the cost is the cost of the defense features?

Mr. PIERCE. That is a situation that to the best of my knowledge has been peculiar to this particular project. May I take the time just to explain what I mean by that, Mr. Chairman? The ordinary system is a bit more typical of the Pacific liner, or perhaps take one of the earlier ships, such as the Moore-McCormack ships building now and the Grace Line ships, where the respective owner or operator of the line has a design worked up for his commercial requirements. That is submitted to the Maritime Administration for their approval, and at the same time if national defense features or Government help of that sort is going to be needed it is sent over to the Navy Department for their requirements. Now, if those requirements are not too far apart, they might be only such matters as shockproof electrical equipment, perhaps more generating capacity in the ship's electrical generators or more evaporator capacity so that she can be independent of shore supplies of fresh water for a longer time if used for troop work. Nearly all of those things could be worked right into the original

ship, and that is quite commonly the way that we have been bidding ships; in other words, the commercial design and then the military or the national defense ship, as we have come to call it, which has these comparatively minor additions which the Navy wanted for their purposes. It did not involve a real change in the ship. In many cases the speed was not involved at all. In other words, the speed required by the owner was satisfactory to the Navy for that particular ship, and that was that. In that case the difference between the two bids was really an accurate measure of the national defense features.

Here you get into this—and I hope you will excuse me for not getting into the argument whether it should be a 28½-knot ship or 30½-knot ship as commercially designed, because that is a matter that we have neither the facts nor the background to comment on. However, the question here is that the 2 ships are very different in speed, so different that it requires a different type of ship both to be driven at those speeds and to carry the plant that those 2 speeds require. So we have a rather special situation here.

Mr. ALLEN. I am going to rephrase my summarization. Sometimes the defense features are merely in addition to a commercial ship and sometimes to get the defense ship you build an entirely different ship than the commercial?

Mr. PIERCE. Yes, sir, I think that would be a very clean-cut summary.

Mr. ALLEN. And the comparison of the total cost of the defense against the commercial is actually the cost of the defense features?

Mr. PIERCE. Yes, sir.

The CHAIRMAN. Did I understand correctly that the bid on the commercial ship itself was $90 million and it was estimated there would be $19 million of defense features?

Mr. PIERCE. No, sir.

The CHAIRMAN. I would like to clear that up.

Mr. PIERCE. Our successful bid for the national defense ship, let's call it, that is, the plans and specifications which were prepared and which all of us bid on, was $109 million. When we made our estimate of the commercial equivalent, we found that to be about $90 million. It is, therefore, the difference between those two figures that is now assumed, I presume, to be the national defense cost.

The CHAIRMAN. Is there an escalator clause in the contract so that it can go up or come down?

Mr. PIERCE. Yes, sir.

The CHAIRMAN. What is the provision?

Mr. PIERCE. All of the bids from all bidders were what we call adjusted-price bids. In other words, labor and material are escalated upward or downward in accordance with well-established indexes.

The CHAIRMAN. What was that?

Mr. PIERCE. Established indexes. For example, labor is escalated upward or downward by the average hourly rate paid in some six selected east coast shipyards. That is an index prepared by the Department of Labor. The material is escalated upward or downward according to the index of prices for Group 10, metals and metal products which is prepared by the Department of Labor. Those two established indexes are used in the calculations for escalation.

The CHAIRMAN. They are the only features?

Mr. PIERCE. Yes, sir.

The CHAIRMAN. They would be escalated or changed from the date of the acceptance of the original contract?

Mr. PIERCE. The date of bid, Mr. Chairman. Actually, it is the month immediately preceding the date of bid opening as the base month for that escalation.

Mr. PELLY. I would like to ask the witness how many bidders there were.

Mr. PIERCE. There were three.

Mr. PELLY. There are very few shipyards that actually can build such a ship, are there not?

Mr. PIERCE. I believe I am quite right in saying that there are only three that can build a ship of this size without a very major increase of facilities.

Mr. PELLY. The difference between the figure $109 million and the figure used yesterday of $128 million represents, does it not, the cost of outfitting and equipment?

Mr. PIERCE. That, sir, and the predicted escalation, assuming that the price of materials and labor corresponding to those indexes goes up just about as it has in the past few years. I presume that is the way that figure was arrived at.

Mr. PELLY. That would include the escalation on the defense features, too, would it not?

Mr. PIERCE. Yes.

The CHAIRMAN. This figure of $109 million is just simply the ship as the shipyard turns it out?

Mr. PIERCE. Yes, sir.

The CHAIRMAN. The furnishings and things of that kind are not considered in here?

Mr. PIERCE. That does not include certain types of owner's outfit, but it does include a great deal of the furnishings that go into the ship. In other words, there are a great many items, such as the furniture, the berths, the tables, all that sort of thing, which are included in that $109 million. There is some $3 to $5 million worth of items which an owner always furnishes and for which the shipyard is not responsible. Those items, incidentally, are spelled out in the specifications. There is no confusion whatever about them.

The CHAIRMAN. Mr. Pelly inquired about the $128 million.

Mr. PELLY. That was the testimony as I recall it in General Franklin's statement as to the overall cost, and he stated that if the overall cost was $128 million that using the formula which had been the case when the steamship *United States* was built that the defense features would have cost $44 million, and here we only have $19 million on this figure. That seems to be the reason that you cannot build it under the Merchant Marine Act of 1936.

The CHAIRMAN. Could you develop anything about that part of it, Mr. Pierce?

Mr. PIERCE. I do not quite understand, Mr. Chairman.

The CHAIRMAN. Could you develop the difference between $109 million and the additional $19 million.

Mr. PIERCE. Yes. That was composed of escalation over the 3 months and 3 years' building period, at least the predicted escalation, the owner's outfit, inspection fees, and a number of other items like that that the owner pays for, and that would have to be added to the commercial ship's value to actually get the cost of the commercial

ship. In other words, you have two figures that are comparable, the $109 million for the national-defense ship and approximately $90 million for its commercial equivalent. Now, both of those have to be corrected for your estimate of escalation over the building period and the other items that are necessary to make the ship fully operable and ready to take passengers aboard.

Mr. GROSS. Just one question. Both of these $109 million and $90 million ships are nuclear powered?

Mr. PIERCE. No, neither. Both are conventional.

Mr. GROSS. Conventional powered ships?

Mr. PIERCE. Yes.

The CHAIRMAN. Mrs. Sullivan.

Mrs. SULLIVAN. I was going to ask the same thing Mr. Pelly was questioning about, because there was such a difference in the amount of money quoted, but I will skip it.

The CHAIRMAN. The counsel of the committee, Mr. Drewry.

Mr. DREWRY. Mr. Pierce, is it fair to conclude from what you had to say about this commercial equivalent that you are working in an extremely "iffy" atmosphere to arrive at the difference between the so-called commercial equivalent, on which there was not general bidding, and the kind of ship which will be built?

Mr. PIERCE. I think, sir, it was as realistic as it could be made, but obviously it leaves a great deal to be desired as a really firm yardstick.

Mr. DREWRY. I was just thinking about General Franklin's comment about the differences of opinion that might arise over the question of defense features. Now, that is the purpose of having this dummy commercial equivalent, is it not, to give some guide to the defense features? It is not the ship that is going to be built. So the only reason for having that estimate is to arrive at some estimate of what the defense features would be?

Mr. PIERCE. It is my understanding that that was its only purpose.

Mr. DREWRY. Now, maybe you cannot answer this but I think it ought to be answered. Were the commercial equivalent designs and specifications which you estimated on acceptable as a commercial equivalent to the United States Lines Co.?

Mr. PIERCE. I am afraid, Mr. Drewry, that that question should be answered by the United States Lines Co.

Mr. DREWRY. It was presented to you by Maritime?

Mr. PIERCE. It was presented to us by Maritime.

Mr. DREWERY. That is all, Mr. Chairman.

The CHAIRMAN. The bid as offered by Maritime, as I understand, was broken in two parts, the cost of the strictly commercial vessel and the cost of the vessel with the national defense features on it?

Mr. PIERCE. They were two entirely separate sets of plans and specifications. As a matter of fact, we did not begin the work and were not asked to estimate the cost of the second set or the commercial equivalent until after the opening of the other bids. In other words, that estimate was required only of the low bidder and was to assist the Maritime, as Mr. Drewry has put it, in arriving at an evaluation of the defense features.

The CHAIRMAN. So there are really two bids.

Mr. PIERCE. We made two bids.

The CHAIRMAN. But they are joined.

Mr. MAILLIARD. However, on that line it seems to me you mentioned that there are certain advantages as far as cost of construction in the fact that the proposed ship is very similar to the *United States.*

Mr. PIERCE. Yes, sir.

Mr. MAILLIARD. That same advantage would not accrue in estimating the commercial version?

Mr. PIERCE. No, sir.

Mr. MAILLIARD. Doesn't that raise a question as to the validity of the yardstick?

Mr. PIERCE. We pointed that out in submitting our second figure. Necessarily a much higher engineering value had to be placed on the commercial equivalent, for we were losing the advantage of engineering work which would not need to be duplicated in the case of the national defense ship.

Mr. MAILLIARD. What is your personal opinion as to the validity of this method in this particular instance of determining national defense value by taking the difference between these two figures? Does it seem a proper way to do it?

Mr. PIERCE. I would be more inclined, sir, to question its validity if I had a better solution to propose, and that is why I am hesitating in my answer.

Mr. MAILLIARD. Assuming that what General Franklin told us the other day was correct—I am sure it was correct—that applying the same ratios and basis as was applied in the case of the *United States*, this $19 million figure is almost absurdly out of line. It is less than half.

Mr. PIERCE. Yes, sir.

Mr. MAILLIARD. How do you account for that?

Mr. PIERCE. Well, there may be two differences. Much of this revolves around the argument as to whether the United States Lines would build, if nothing but their own operation was concerned, perhaps a 28½-knot ship to compete with the 2 British ships. The argument as I understand it is that the Maritime Administration believes that a 30½-knot ship is the commercial equivalent because of the use of the *United States* at that speed. The difference between the twin screw ship and a triple screw ship would account for a great deal of money.

Mr. MAILLIARD. Do you happen to know in the case of the *United States* whether the comparison was made between a 28½-knot ship?

Mr. PIERCE. It was made between a 28½-knot ship and the ship that was built.

Mr. MAILLIARD. It was in the case of the *United States?*

Mr. PIERCE. I believe that is correct. That is a matter of record, but that is my recollection.

Mr. MAILLIARD. Would that account for as much as 100 percent difference or over 100 percent?

Mr. PIERCE. I doubt if that one feature would account for all of that, but I think that in making such a comparison you are also taking in all of the other differences that existed at that time versus those of the present day, too. You are also talking about ships of substantially greater cost today.

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Mr. MAILLIARD. Well, this factor of having to count into the $90 million new engineering, all the mechanical problems of breaking down and ordering various materials, and so forth, you have to include that to a much greater extent in the $90 million figure than you do in the 109 million figure?

Mr. PIERCE. That, of course, could be broken out of the estimates.

Mr. MAILLIARD. I am trying to get clear in my mind whether it is reasonable to subtract this from the national defense feature, which is what in effect you are doing.

Mr. PIERCE. Frankly, I do not think that it is completely accurate. I think it leads you too low.

Mr. MAILLIARD. I think we have to conclude that either the national defense figure on the *United States* was too high or if a figure of $19 million was taken in this case it would be too low. That cannot very well both be right.

That is all, Mr. Chairman.

The CHAIRMAN. Do you recall what the national defense features applied to the *United States* amounted to?

Mr. PIERCE. The actual value, sir? I believe General Franklin mentioned those figures the other day, but I would hesitate.

Mr. PELLY. They were $35 million.

Mr. PIERCE. I was under the impression it was about $25 million.

The CHAIRMAN. Any further questions? I see Mr. Gibbs is still in the audience. Mr. Gibbs, could you give us a little light for the record on this subject we are discussing?

Mr. GIBBS. I think I can. In the case of the *United States*, the Maritime Commission set up a joint committee with representatives of the Navy, Maritime, and ourselves, and they asked us to design a usual ship, the usual ship that could have made the round voyage at the speeds of the Cunard ships, which is what the competition was and was a 28½-knot ship. That is the speed at which the Cunard ships were designed, and that is the speed the Cunard ships run at in making their two weekly round voyages.

We designed a ship, prepared specifications, and submitted them to the committee set up by the Commission, and after consideration the committee came to the conclusion that the price of such a ship was the figure of the usual ship. That was checked with at least Newport News. I am not sure whether it was checked with another yard or not independently.

When this matter came up I think a mistake was made because the Maritime felt that the average running speed of the *United States* was the speed of the usual ship. That had nothing to do with it at all.

If you are going to build a ship today and you owned the *United States* you would consider building a ship that exactly matched Cunard, because you have the record. The *Queens* cannot possibly take it away from you. You could get a second ship to run with the fast ship and do the two weekly turnaround and match Cunard, but Maritime felt that because the *United States* had run faster than 28½ knots they were getting an advantage that made it apparent that the additional speed was the usual ship speed.

During the negotiations for the construction of the *United States* the Maritime charged one million and one-quarter dollars—I think I am right in my figures; it was over a million—additional for the advantage of being able to go faster than 28½ knots, so that the United

States Lines has paid for the right to run the ship over 28½ knots in a schedule of a two weekly round.

The so-called commercial usual ship suggested by Maritime is not a ship that the owner would agree is a usual ship. He would never build that ship. You could not build it and live. You would have to build either the *United States* or a much cheaper ship, namely, the 28½-knot ship, but we got out of this study by Maritime a hermaphrodite that was neither a naval auxiliary ship nor a usual ship, and that is the reason why you simply could not grasp why there was the difference between these.

This usual ship, so called, that was produced at this particular time by Maritime had 3 propellers instead of 2 and other features that affected the price, so that when the New York Ship was asked to make a price on that they made a price on an entirely different usual ship than I believe or the owner believe would be a usual ship that should be considered.

Does that answer your question, Mr. Chairman?

The CHAIRMAN. Mr. Mailliard?

Mr. MAILLIARD. I am perfectly satisfied.

Mr. PELLY. I would just like to refer to your testimony this morning. You gave a formula about one-third of the cost of the ship being for defense features.

Mr. GIBBS. I said that approximately what happened in the *United States* was one-third for national defense, one-third for the owner, and one-third for the construction subsidy. It was built under the 1956 act. Those are round figures, but it was approximately that division, and the fact of the matter is that in the *United States* the ship was from the ground up designed as a naval auxiliary. The material used are different from the usual ship and the whole ship is a Navy-type construction standard which is much higher than a commercial ship. That was done to economize weight and to make this ship more efficient.

The CHAIRMAN. For the new ship we now have under consideration the national defense features have been mentioned here as $19 million. That is quite a difference between the national defense features that were accorded the *United States*.

Mr. GIBBS. That is exactly right.

The CHAIRMAN. How do you get this low figure here?

Mr. GIBBS. You get the low figure here because the comparison ship is a much more expensive ship because it has three screws and various other features, a larger ship than the ship that was originally used as a usual commercial equivalent.

That earlier determination was made by a committee with the Navy sitting in and other agencies, and it was determined that that was a fair comparison. It was a fair comparison because if you were going to compete with Cunard you would certainly, as a commercial proposition, do it with the cheapest ship that you could and take the record. You might get the record by a quarter of a knot or something, which that ship could have done.

This ship that we are talking about as a comparison that Mr. Pierce has brought up is a much more costly ship. It had three propellers. It was a larger ship. It was a much most costly ship.

The CHAIRMAN. The ship we are speaking about under construction is a superior ship?

Mr. GIBBS. The ship that we are going to build is a substantial duplicate of the *United States* with many advantageous changes in it.

The CHAIRMAN. Yet you can get the national defense features in it more economically than you can the *United States*?

Mr. GIBBS. No, no; I think you have missed my point.

The CHAIRMAN. They give the national defense features here at $19 million.

Mr. GIBBS. As to the $19 million there, there are no national defense features in this cheaper ship supposedly. I say that is not fair because it is a faster ship than a usual ship need be. It is thirty-odd knots as compared with 28½ which the trade requires to match the performance of Cunard.

For instance, take the Cunard. Before the *United States* appeared they had a fast ship in the *Queen Mary* and held the record, 31.69 knots. They built the *Queen Elizabeth* and the *Queen Elizabeth* never equaled that record. They run a 2-weekly service with 2 ships. There would have been no advantage to them in building the *Elizabeth* with more speed than the *Queen Mary* because they were competing with themselves and it would have cost them a lot of money.

Once you had the *United States* you would certainly not build another ship to run with the *United States* as a commercial equivalent of higher speed than the *United States* or of equal speed to the *United States* if you were going to do a commercial equivalent.

I do not think the United States Lines would have built the commerical equivalent ship because I think then even the cost of that ship with no national defense, but with the construction subsidy in it, and the portion that would have to be assumed by the United States Lines would be beyond the commercial possibilities of such a ship to earn money.

However, in this particular ship that they are talking about, this standard that they set up to measure what was the national defense differs from this usual ship. It was not a usual ship at all. It was a hermaphrodite ship. The U. S. Lines would never build such a ship to compete in the North Atlantic with Cunard.

They would have gone down to a ship of about 28½ and matched a 2 weekly turn around and they would have had the record in the U. S. *United States*.

Mr. RAY. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes.

Mr. RAY. Did you make an estimate of the difference in cost that is caused by the three propeller ship?

Mr. GIBBS. I have not. I have never seen the plans of this ship we are talking about. Those were not submitted to the United States Lines as far as I know. No; they were not. We did not know anything about it. This was a transaction entirely between the Maritime and New York Ship.

Mr. MILLER. Mr. Chairman.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. Mr. Gibbs, I want to try and keep my own thinking straight.

You say when you designed the *United States* this committee was set up. You designed a usual ship that became the standard to measure the base upon which to move, and then into this usual ship were incorporated certain defense features?

Mr. GIBBS. No; we designed an entirely different ship that had no national defense features from the ground up.

Mr. MILLER. When the ship was built certain other features were built into it that resulted in the present *United States* which is above the plateau of the usual ship used at that time?

Mr. GIBBS. No; there was nothing added to the ship that had anything to do with national defense.

The *United States* was first designed from the ground up once and for all as a naval auxiliary far superior to anything in the world.

The ship that it was compared with was a ship that we also designed that had absolutely no national-defense features.

Mr. MILLER. That was the ship that you referred to as the "usual"?

Mr. GIBBS. That is right. That was designed to do the job of running across the Atlantic on a round voyage speed of 28½ knots, a round voyage every 2 weeks, to go opposite Cunard. That ship had inherent in it I think power enough so that it would have taken the record by two-tenths of a knot or something. It had a good chance of getting it, but it would have competed on a parity with the Cunard.

Mr. MILLER. Then we never built the usual ship.

Mr. GIBBS. We never built it.

Mr. MILLER. However, the ship that we now have is the one that we are using as the plateau to go from with additional national-defense features in building a second *United States?*

Mr. GIBBS. The usual ship of 1958 is a much more costly ship because of the number of shafts and other features than the usual ship of 1950.

I say to you that the comparison is unfair, because there is no need of that kind of a usual ship. It is not usual. No man with any brains in his head would ever build that ship to compete on the North Atlantic once you owned the *United States*, because you have the record. You could do it with a less costly ship.

Now, I can also say to you that you would not find any owner to build that ship, because the cost of that ship to the owner, notwithstanding the Merchant Marine Act of 1936, and the fact that it contained no national-defense features, would still be so high in costs that the line could not make ends meet with that ship. It was only this three-part division in the case of the *United States* that enabled it to be built, roughly a third. It is not quite that, but it is in that neighborhood; a third for the national defense, a third for the construction subsidy, and a third by the owner. That enabled the ship to be built.

Those two-thirds, the construction subsidy and the part put in by the owner, are lower in amount than the two parts that the cost of the usual ship would be divided into.

The CHAIRMAN. Let me ask you one more question, Mr. Gibbs. The ship that New York Ship bid was of a new design? They bid on your specifications and design; is that correct?

Mr. GIBBS. That is exactly right. The bid they made at $109 million is the *United States* in all its characteristics with certain improvements that we could put into that ship as the result of 5 years of experience, some change in materials where new materials were produced in the meantime, and things of that kind, but the ship essentially is the type of ship that the *United States* is, and is a national-defense

ship from the ground up, and has no connection whatever with a commercial ship.

The CHAIRMAN. This ship you are talking about has no connection with a commercial ship?

Mr. GIBBS. The $109 million ship has no connection with a commercial ship whatever.

The CHAIRMAN. And in your specifications there were the plans for the national-defense features?

Mr. GIBBS. It was embodied in the plans of the ship, as it was in the case of the original *United States*.

The CHAIRMAN. All right.

Mr. Tollefson?

Mr. TOLLEFSON. Mr. Gibbs, I do not know that I understand the cost of defense features yet. Using your round figures in connection with the existing *United States*, one-third, one-third, and one-third, then the defense features would have cost, roughly, $25 million; is that right?

Mr. GIBBS. Yes.

Mr. TOLLEFSON. Do I understand that, on the proposed replacement of the *America*, the defense features will only be $19 million?

Mr. GIBBS. No, no. The defense features in the new ship, on that rough estimate that I have given you, which is not accurate, but it is fairly illustrative, would go up by the difference between the original cost of the *United States* and the $109 million bid of the New York Ship. It still would be, if you attempted to proceed under the 1936 act, one-third for each account at today's prices.

Mr. TOLLEFSON. That answers my question. Thank you very much.

Mr. GIBBS. However, that one-third would be more than the United States can afford to pay.

Mr. ALLEN. Mr. Chairman.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. I ask either Mr. Gibbs or Mr. Pierce if you can give us any estimate of what that usual ship, that 28½-knot ship, would have bid at had the bid been taken at the same time that this $109 million bid was made?

Mr. PIERCE. That is a pretty large order, Mr. Allen, to come up with the figure. It would have been, certainly, substantially less than the three-screw ship or equivalent ship which we were asked to bid on.

Mr. ALLEN. Could you guess on it?

Mr. PIERCE. Actually, I do not have any figure on that size and type of ship, and we did not make any estimate on the original job that Mr. Gibbs refers to. It would be substantially less.

Mr. ALLEN. Could you give us two figures between which it would probably be; a high guess and a low guess?

Mr. PIERCE. It might be in the neighborhood of $70 million.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Gibbs.

Mr. GIBBS. Mr. Chairman, might I suggest that the only people who can properly guess on this is a shipyard. Nobody else would have nerve enough to.

Mr. PIERCE. I only question the word "properly."

Mr. ALLEN. I guess Mr. Gibbs overlooks the fact that, if we do not get a guess from somebody who knows what he is doing, we have to do the guessing without knowing.

Mr. GIBBS. May I suggest in this case, Mr. Chairman, the simplest way to get at it, to see yourself, is this: If you take the original price of the *United States* and you see the allowance for national defense, and the allowance for the construction subsidy, and the share of the owner, and you take the price of the new *United States*, the $109 million, and divide it in exactly the same proportion, you will come out about right, simply because the factors that have increased the price of the new *United States* over the old one are largely economic factors, and the result is everything went up together, so that you just get up onto a plateau from the price of the *United States* to the new *United States*, and you bring up these 3 items together.

Mr. PIERCE. I would certainly subscribe to that.

The CHAIRMAN. Are there any further questions?

Mr. PIERCE. Just glancing at the letter in which we submitted this one price which was arbitrarily used as the comparison, we pointed out at that time, of course, this matter of the additional engineering that would be required for such a ship, the fact that it would probably not be the type of ship that the owner would build, and a third factor that we had no way, even though we had good cooperation from all of our vendors, of knowing we were getting rockbottom prices. Therefore, we did not, in putting in the bid, agree that it was a sound method of arriving at it and, as I say, at that time pointed out that by this method you got an extremely small value for national-defense features which could well be compared to what defense you could get for that same money in other respects; for example, the cost of 1 destroyer versus having a ship like the *United States* available.

The CHAIRMAN. Thank you very much, Mr. Pierce.

Mr. PIERCE. Thank you, gentlemen.

The CHAIRMAN. That will conclude the hearing this afternoon. The committee will meet tomorrow morning at 10 o'clock, and the witnesses tomorrow morning will be Mr. Blewett, Mr. Rothschild, of the Department of Commerce, and, probably, Mr. Morse.

(Whereupon, at 3:50 p. m., the hearing was adjourned until 10 a. m., Friday, February 7, 1958.)

SUPERLINER LEGISLATION

FRIDAY, FEBRUARY 7, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 219, Old House Office Building, Hon. Herbert C. Bonner, chairman of the committee, presiding.

The CHAIRMAN. The committee will come to order.

The first witness this morning is Mr. William Blewett, Jr., president, Newport News Shipbuilding & Dry Dock Co., accompanied by Mr. Menke, president of the Nuclear Development Associates, White Plains, N. Y.

Do you want to bring Mr. Menke with you?

STATEMENT OF WILLIAM BLEWETT, JR., PRESIDENT, NEWPORT NEWS SHIPBUILDING & DRY DOCK CO., ACCOMPANIED BY JOHN MENKE, PRESIDENT, NUCLEAR DEVELOPMENT ASSOCIATES, WHITE PLAINS, N. Y.

Mr. BLEWETT. I will as the conversation goes on or questions are asked.

Mr. CHAIRMAN. I have no prepared statement. As you know and are aware, Newport News bid on the subject vessel. We were not low bidders. Therefore, as also rans we have no direct interest in the construction of this ship as it is, but as shipbuilders and looking to the future, and as we have been studying application of nuclear power to large vessels for the last 4 years, we applied the power as we knew it, which is for a large aircraft carrier, to a large passenger vessel.

We found in applying this power to a large merchant vessel that it gave very desirable characteristics, with the exception of economy.

The economy of nuclear power, of the plant as we know it today, would not warrant us making any recommendation that nuclear power at this time be applied to a merchant ship. However, as this subject vessel is going to be the outstanding vessel in the world, I think consideration ought to be given to what nuclear power may do in the immediate future, and it would be a shame to put out a ship equipped with a conventional plant today and then we find that nuclear power could economically be used at the time the ship is delivered or shortly thereafter.

We in Newport News are not familiar enough with the development of nuclear power to make any intelligent guess as to when it will be available economically, so we have consulted with the Nuclear Development Associates, as they are much more familiar with the whole picture, with the idea that perhaps after studying their part they

could give us an intelligent guess as to when it would really be feasible from an economical standpoint to apply nuclear power to a merchant vessel.

We have gone so far with this that we have prepared plans, made preliminary studies, and we have also an outboard profile of a ship that would result as a large passenger ship in the application of nuclear power.

That is about all I have to say, but I would be very glad to answer any questions the committee might have, and I have with me our cost engineer, so that perhaps we could answer some of your cost questions if you so desire.

The CHAIRMAN. Mr. Allen?

Mr. ALLEN. Thank you, Mr. Chairman.

Mr. Blewett, in speaking of this ship as a modern ship, and wanting to get it the most modern, would there be any changes in the ship from the plans which have been proposed in the spaces, or the design, or accommodations, or capacity that would result from making use of nuclear power?

Mr. BLEWETT. Yes, sir. This ship we have worked up is a longer ship, not very much, but somewhat. It is a faster ship. It will give 4 knots more, approximately, and it will give considerably more passenger accommodations.

In the design, we eliminate some features of the modern ship, and we take advantage of the no smoke and the advantage of stabilizers which are now on the market.

Mr. ALLEN. Do you have any estimate as to the dollar costs involved?

Mr. BLEWETT. I would not say we had an estimate, Mr. Allen. What I might say is an intelligent guess as to how much more a ship equipped with nuclear power would cost, in the range of $70 million more than the conventional ship.

Mr. ALLEN. Do you want to take a figure for the conventional ship? Are you talking about the $128 million?

Mr. BLEWETT. I am talking about the $128 million. I imagine that is the figure you would take.

Mr. ALLEN. For practical purposes, would the added $70 million be a national defense feature in addition to other national defense features?

Mr. BLEWETT. I am not prepared to answer that question, sir. That is in an echelon that I am not in, but I should think a nuclear ship certainly ought to be considered as a definite feature.

Mr. ALLEN. It would be pretty obvious that a commercial operator could not make any money on the additional capital investment.

Mr. BLEWETT. That is right. The operating cost of this ship would be way in excess of an oil-burning ship, a conventional ship today, with the plant as we know it today, but what may develop within a few years may change the picture completely. I have with me today Mr. Menke, who is president of this Nuclear Development Associates, and if you gentlemen have any technical questions in respect to nuclear power, I would be very glad to refer them to him.

Mr. ALLEN. If you build the ship you have designed and there were improvements to nuclear powerplants, is there any prediction as to whether the developments could be incorporated in the ship before it was actually finished without materially changing the design that you start with?

Mr. BLEWETT. No. If it is going to be a nuclear ship it ought to be designated from the keel up as a nuclear ship. Your weights are quite different and your centers of gravity and so forth would materially change, and I do not think you could take a conventional powerplant and efficiently put it into a nuclear ship.

Mr. ALLEN. I was not referring to that situation.

I was referring to a ship that you would design now to take a nuclear plant that you know now and suppose within the next 3 years there is a major change in nuclear plants: Would the ship that you would design now for the present nuclear plant be able to take an advance type nuclear plant?

Mr. BLEWETT. Guessing as an answer to that question, I would say yes, because the weights that are particularly involved are shielding and we would probably still have to maintain the same shielding and develop a different kind of a reactor.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Blewett, yesterday there was discussion with respect to two ships, the ship that was designed, as I understand it, by Gibbs and the ship that was designed by Maritime at the time these bids were invited. Is that correct

Mr. BLEWETT. The only ship that we bid on, Mr. Chairman, was the ship that we had built before that was designed by Gibbs. I do not know what that other ship was you are talking about, unless it was a commercial equivalent ship.

The CHAIRMAN. That is it.

Mr. BLEWETT. That was, I believe, designed by the Maritime Administration, but we did not have anything to do with that, not in this bidding. We did originally.

The CHAIRMAN. Did anybody submit a bid with respect to that ship?

Mr. BLEWETT. No, sir; not that I know of. We did not.

The CHAIRMAN. So there was no confusion with respect to the bidding?

Mr. BLEWETT. Any confusion with respect to the bidding?

The CHAIRMAN. With respect to the bidding.

Mr. BLEWETT. To the best of my knowledge, there was no confusion at all.

The CHAIRMAN. In the manner in which the bids were invited and bids were received?

Mr. BLEWETT. That is right.

The CHAIRMAN. There is no discussion or argument with respect to that?

Mr. BLEWETT. Not that I have.

The CHAIRMAN. Mr. Robeson?

Mr. ROBESON. Mr. Blewett, you mentioned that you could expect additional speed in the ship.

Admiral Wilson testified the defense feature that was of primary importance would be speed in these liners of large capacity. I understood you to say a nuclear ship such as you have planned or proposed for building would be expected to have more speed.

Mr. BLEWETT. Yes. We have been working on a nuclear plant for a naval ship. We took that plant and put it into another ship. The ship is longer. We had to make it longer to get our additional speed—it is not much longer—and we have in this ship about 4 knots additional speed. We have not run model tests on it so I cannot make an

accurate statement, but it looks to us that with the power we have and with the hull design we could get about 4 knots more speed.

Mr. ROBESON. That is all.

The CHAIRMAN. Mr. Tollefson?

Mr. TOLLEFSON. Thank you, Mr. Chairman.

I am sorry I did not hear your statement. I was late coming in.

Yesterday there was some concern expressed that a nuclear powerplant in a commercial type vessel might soon become obsolete. What is your thinking with respect to future developments of nuclear powerplants for vessels? Do you think that there is a likelihood of the present type of plants becoming obsolete?

Mr. BLEWETT. Mr. Tollefson, I would like to refer that question to Mr. Menke, whom I have here with me, and I know he is very familiar with the various forms of reactors that are being developed and I think he is much more qualified to answer that question than I am.

This is Mr. Menke, president of Nuclear Development Associates.

Mr. MENKE. We are in the very beginning of nuclear powerplant design and I think a straight answer to your question is yes.

Mr. TOLLEFSON. With that answer, you still believe that we should have a nuclear powerplant in this proposed vessel?

Mr. BLEWETT. Yes, we could have it in the proposed new vessel. It would be much easier to change from the type of nuclear powerplant within the vessel than it would be to change from a conventional fuel to a nuclear powerplant. Your shielding is the big thing, and although this is so undeveloped it is hard to make a definite statement on it, I think the probabilities are we could apply a nuclear design plant, a nuclear reactor, very easily in the ship.

Mr. TOLLEFSON. Would that involve a terrific expense? I am speaking of the change over.

Mr. MENKE. There would be small changes that would improve as you went along continuously, as there are in almost all technologies. Not all of the new designs could be applied, but a great many of them would be.

Mr. TOLLEFSON. It is your thinking, then, that any improvement would not be a radical change that would involve a complete change of the powerplant or exchange of the powerplant?

Mr. MENKE. No, sir. I do not believe that. I believe that you will by applying steam-water reactors to steam turbines in these ships and I think we will gradually improve the steam water reactor boilers.

Mr. TOLLEFSON. The other day the statement was made that is was understandable that we would put a nuclear powerplant into combat vessels as early as possible, but there was not that great urgency to put them into commercial type vessels. What do you think about that?

Mr. MENKE. The other way of asking that question is when will they be economic and will you put them in nationally. That is the question you are asking. We have been in this business now and I think we are just getting through, I like to say, the hot-air phases of it. The facts that I think that you could consider are that there are plants that have come on the line this year and are coming on the line next year and the year following that will permit you to make accurate judgments from experience. I am speaking of the Shippingport plant which is already on the line, of the Yankee atomic plant, which

is a steam plant and is actually the next generation of the Shipping-port plant, which is coming on the line soon. I am speaking of the 8-reactor carrier that is being built by Newport.

When you have that experience and it is all committed, scheduled, and coming in soon, you will have the tools to make the judgment which you really are asking me now.

Mr. TOLLEFSON. Going a little further, in the first place the installation of a nuclear powerplant would cost more than the installation of a conventional powerplant by a considerable number of dollars.

Mr. MENKE. Yes, sir.

Mr. TOLLEFSON. I understand that that figure is now in the record. What about the operating costs of a nuclear powerplant as against the conventional powerplant? Would that also be more expensive?

Mr. BLEWETT. Yes. That is more expensive as we know it today. It varies, as the article in the Saturday Evening Post said, from 2 to 10 times as much, but what we are in hopes of is a breakthrough where it will not be more expensive to operate under nuclear power. However, for a passenger ship nuclear power gives you some added advantages and the particular added advantage is that it eliminates smoke in your ship. It gives you a chance to use your upper decks. I have a sketch of the ship, an outboard profile, which makes a very adaptable ship for luxury travel.

Mr. TOLLEFSON. I have another type of question.

Again yesterday there was considerable discussion about arriving at the cost of defense features. There were defense features in the existing *United States*. Could you enlighten us as to how the cost of defense features is estimated?

Mr. BLEWETT. Yes. Going back to your experience in the *United States*, which I suppose is what you are asking, we put defense features in four categories. There was the speed, the capacity, the safety, and the radius of action. We analyzed the original *United States* for each of those four factors, what the naval architect, Gibbs, had put in that ship for each one of those factors over and above the commercial ship, and we came out with an answer, as I remember, of about $22 million or $23 million. That is in the original ship as against the bid of $67 million.

Mr. TOLLEFSON. Did you arrive at an estimate and did the Maritime also arrive at an independent estimate and then you negotiated?

Mr. BLEWETT. On what?

Mr. TOLLEFSON. On the cost of defense features?

Mr. BLEWETT. No, sir. We just made this estimate on our own and gave it to the Maritime Commission at that time and I suppose they had their own technicians analyze our work.

Further than that, I do not know what happened.

Mr. TOLLEFSON. Do you know whether or not they accepted your estimate?

Mr. BLEWETT. I think they did.

Mr. TOLLEFSON. Aside from the fact that later on there was some adjustment.

Mr. BLEWETT. Oh, yes. There was a lot of conversation later on, but I do not think the conversation hinged on the defense features.

Mr. TOLLEFSON. The cost of the defense features is quite an item. Can you answer this question: Is it a simple proposition to arrive at the cost of defense features?

Mr. BLEWETT. Yes; I would say it is not beyond the realm of a fairly accurate estimate. It is much more accurate than what we are talking about here, nuclear power.

Mr. TOLLEFSON. Thank you very much.

That is all, Mr. Chairman.

The CHAIRMAN. Mrs. Sullivan?

Mrs. SULLIVAN. Thank you, Mr. Chairman.

Mr. Blewett, we have heard testimony that in building a conventional powerplant in the ship the ship could be delivered in approximately 3 years from the time they got the go-ahead. How long would we have to wait for the ship if it was decided that nuclear power would be put in?

Mr. BLEWETT. Mrs. Sullivan, I do not think you will get the ship in 3 years in the first place. I would take exception to that figure. However, to answer your question, I would say it would probably take about a year longer to get the ship if you decided to put a nuclear plant in it. It depends primarily not on the shipbuilder, but on obtaining the core and the reactors. I think that would be the critical item in the time that it would take to build a nuclear-powered ship, and I would guess approximately a year longer; about 48 months.

Mrs. SULLIVAN. That is all.

The CHAIRMAN. Mr. Van Pelt?

Mr. VAN PELT. Were you here to hear the testimony of General Franklin when the figure of $47 million was used as the sales price to the company? Would that be a fair price as far as construction in a foreign yard?

Mr. BLEWETT. In a foreign yard, sir?

Mr. VAN PELT. Yes.

Mr. BLEWETT. I am not prepared on that, Mr. Van Pelt. I really do not know. I am not versed on foreign yard costs.

Mr. VAN PELT. Then there was another question that seemed to give the corporation some concern. That was with regard to the turnaround, I am wondering in your research has it been determined how long it would take to refuel a ship if it had an atomic plant?

Mr. BLEWETT. An atomic ship would not take any time in refueling at all. We would have to refuel this ship as we have it designed about once every 3 years.

Mr. VAN PELT. How long would it take? Would it take a day?

Mr. BLEWETT. At the end of the 3-year period?

Mr. VAN PELT. Yes.

Mr. BLEWETT. It would take at least 6 weeks to a couple of months to refuel it, having everything available when the ship came in, because we would not build casings over and above the reactors. We would just leave portable sections there and those would have to be taken out and then the old cores would have to be lifted out and the new ones replaced, and it would take at least 6 weeks to a couple of months.

Mr. VAN PELT. Would the lack of smoke and so forth affect materially the operation of the ship so far as cost is concerned, maintenance, painting, and so forth?

Mr. BLEWETT. I would imagine it would; yes, sir.

Mr. VAN PELT. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Dellay?

Mr. DELLAY. No questions.

The CHAIRMAN. Mr. Mailliard?

Mr. MAILLIARD. Thank you, Mr. Chairman.

Mr. Blewett, you mentioned the advantages in being able to design a ship around a nuclear powerplant. Would you be a little more specific as to what those advantages are?

Mr. BLEWETT. Yes. I would like to show you that print we have. You have more speed in it. We do away with the promenade deck completely.

Mr. MAILLIARD. May I question you on the speed factor. Do you have more speed for the same horsepower, or are you just putting in more horsepower?

Mr. BLEWETT. It is a combination. You have to have horsepower somewhat in excess. The plant that we are putting in there is the plant that we have for this large naval ship.

Mr. MAILLIARD. So what you have done is to design a commercial ship around a plant that exists?

Mr. BLEWETT. That is right.

Mr. MAILLIARD. So it has more speed than the plant designed for the sister ship of the *United States*, but could you not put a conventional plant in it and get more speed, too?

Mr. BLEWETT. Yes, you could, but you are getting up pretty high in your conventional plants.

Mr. MAILLIARD. I realize that, but, it seems to me there is a little confusion as to this business of getting more speed out of a nuclear plant.

Mr. BLEWETT. You will get more speed out of horsepower, not nuclear power. The horsepower is the final thing that you get your speed out of. Whether you get it from an atom or whether you get it from oil burning does not make any difference. It is the horsepower that gives you the speed.

Mr. MAILLIARD. So it is not a fair thing to say that because you use a nuclear plant you get more speed?

Mr. BLEWETT. No, no. You could use a nuclear plant that would not give you the same horsepower and you would get a lot less speed.

Mr. MAILLIARD. That speed factor as to what type of plant you use is really not germane?

Mr. BLEWETT. That is right. Your speed is dependent upon your horsepower, not the type of fuel.

Mr. MAILLIARD. So if you are looking to the combination of defense features, the principal one of which is speed, there is also the economic factor. You are not going to get more speed per dollar invested out of a nuclear plant. You are going to get less.

Mr. BLEWETT. I do not say that, but today your nuclear plant operation is going to cost you more than your fossil fuel plant.

Mr. MAILLIARD. Now will you go ahead with the other features of design?

Mr. BLEWETT. In this ship, as you see, we have cut out the promenade deck. You do not have any interruption of your spaces because of uptakes over the reactors, its portable plates or portable bulkheading and so forth, so that you have a clear deck area. Then we move up to the topside and we have that all enclosed in glass and you have over the pilothouse an observation platform, so to speak, or observation lounge, and your promenade and sports deck are all up topside, which makes a very good setup, very good arrangement. That is

permissible for two reasons. One is lack of smoke; and the second is the stabilizers which we now have where we can minimize roll. It will carry more passengers.

Mr. MAILLIARD. Relating that to the economic factor as we did the speed, would it be true to say that with a ship designed around a nuclear plant you would get more usable space, which in turn would mean from a defense point of view more troop capacity per dollar?

Mr. BLEWETT. That is right, yes.

Mr. MAILLIARD. Appreciably more?

Mr. BLEWETT. Not appreciably more, but somewhat more.

Mr. MAILLIARD. Might I ask how do you provide for access to the core for replacement purposes?

Mr. BLEWETT. By leaving portable decks in and by portable bulkheading. That only has to take place once every 3 years and then that is a major operation. It has to come into a yard and we would have to strip out everything in the vertical line of the reactor, just pull the reactor up, but we would not have any permanent casings in there like you do on oil-fired boilers.

Mr. MAILLIARD. That would be a disadvantage to a commercial operator. That would take a ship off the line for a couple of months?

Mr. BLEWETT. You would have to do that once every 3 years.

Mr. MAILLIARD. Are there any other special features?

Mr. BLEWETT. As time goes on it may be that you can go longer than 3 years under nuclear power before you have to replace your cores, because, as I understand it now, and I again refer to Mr. Menke, there is only a small percentage of the core used before it has to be replaced.

Is that correct?

Mr. MENKE. Yes. I think Mr. Allen asked earlier about improvements as time went on. Improvements could be divided into two areas, really, improvements in the original bulk plant and improvements in the cores and in the full utilization, improvements in the capital cost and improvements in the operating cost, really.

I think you could be very optimistic that all operating costs would be improved as improvements were developed in the vessel and the operating experience of the vessel at the end of 20 years would be a modern operating experience at that 20-year point.

Mr. MAILLIARD. On that subject, two things occur to me. One is the weight that is involved is largely shielding, is it not?

Mr. MENKE. Yes, sir; and containment.

Mr. MAILLIARD. Is there any reason to believe that the requirements for shielding will be reduced?

Mr. MENKE. Yes, considerably.

Mr. MAILLIARD. That would be a tremendous economic factor, because you could build quite a lot of smaller ships if you did not have to cope with that concentrated weight.

Mr. MENKE. Yes. A vessel this large, of course, would have several reactors, so the concentration part is a little bit ameliorated. As the plants become more powerful, we would be able to reduce their size, which will reduce the shielding weight.

Mr. BLEWETT. We are even talking about a difference in steam conditions right now from a reactor. Instead of 650 pounds pressure, we are going to 850 pounds pressure, so that has just happened in the last few months.

Mr. MAILLARD. Is that a peculiarity to the nuclear plant, or could you go up in pressure in a conventional plant, too?

Mr. MENKE. I think the nuclear plant will reach conventional steam conditions, hopefully rather soon. I think we will reach 700° or 800° F. and 2,000 pounds pressure in nuclear plants within a reasonably foreseeable time. I means 2 or 3 years.

Mr. MAILLIARD. You believe that if this ship were designed now and construction started, there might be some reason to believe that at least from an operating point of view its economy would approach the steam plant?

Mr. MENKE. I think there is reason for optimism in the operating economy in the life of the vessel. Of course, the capital equipment that you put in at the beginning largely remains there. If it is large initial capital cost, that is it.

Mr. MAILLIARD. In considering this type of propulsion for a passenger vessel, have you given any thought to public reaction to it?

Mr. MENKE. Yes. I am not an expert in that, but I have. If we do not do it and we find this ship comes on a line 3 or 4 years from now as a conventional powerplant and the year after that you find, let us say, a British nuclear-powered plant, I think you will have one large public reaction.

Mr. MAILLIARD. I realized that. You mean sort of a sputnik reaction?

Mr. MENKE. Yes, sir.

Mr. MAILLIARD. I was wondering more about whether people will have a reluctance to travel on top of a nuclear plant.

Mr. MENKE. My business is unfortunately full of crystal balling and estimating of the future, which has very little accuracy, but on this point I can answer you with facts. The *Nautilus* steamed into New York harbor and it hardly hit the newspapers. Without any advance preparations, and full of fission products, it also steamed out again.

I am happy to be able to answer that with facts because there are so few times I can answer so difficult a question with facts.

Mr. MAILLIARD. I am just wondering more whether the traveling public would travel on the *Nautilus* if you gave them a chance to.

Mr. BLEWETT. They certainly do not hesitate to travel in airplanes today. They are not afraid of old man gravity, so I do not think the public would be particularly afraid.

Mr. MAILLIARD. Still, though, there was a long period of time when a great many people would not travel by air and there are even a few that still will not travel by air, and you are talking about investing an enormous sum of money in a ship that depends entirely on public acceptance for revenue and I think this is a serious question.

Mr. MENKE. Oh, yes. I never quite looked at it from that angle, but I rather doubt that many people would be afraid to travel on a nuclear ship. As a matter of fact, in this design we thought what you could do is put up with that hothouse on the top of the place. We could put in plants and so forth to let the general public see that there are no radioactive molecules flying around in the air.

Mr. MAILLIARD. You make a very nice Japanese garden up there. That is all I have.

The CHAIRMAN. Mr. Miller?

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Mr. MILLER. Were you here the other day when Admiral Wilson testified?

Mr. BLEWETT. No, Mr. Miller.

Mr. MILLER. He testified to the effect that nuclear power was not as efficient as steam power; that is, the reactor in developing steam. You have not licked the nuclear thing yet to the point where you can get as high a pressure out of nuclear power as you can get out of conventional steam?

Mr. BLEWETT. That is right.

Mr. MILLER. What is the maximum you get out of nuclear power? 400?

Mr. MENKE. About 550° or 600° F.

Mr. MILLER. What about steam?

Mr. MENKE. An oil-fired burner in current naval practice is 700° or 800° F. We are 200° or 300° away.

Mr. MILLER. Of course, that means it is more efficient.

Mr. MENKE. Yes, sir.

Mr. MILLER. So, after all, what you are suggesting, as I see it, applying this to both your statements, is that this is a good gamble and that by the time we get this ship built we will be sufficiently advanced in the nuclear field that it is going to be all right. You cannot give us anything positive today; can you?

Mr. MENKE. No. In the nuclear business there are very few guaranties that can be written now.

Mr. MILLER. As a matter of fact, not very few. You would not want to write down any guaranty.

Mr. MENKE. I would write down one guaranty for you: That the availability of uranium as a fuel is by far greater than the availability of oil as a fuel and will continue so for the indefinite future.

Mr. MILLER. However, not for the life of this ship?

Mr. MENKE. Oh, yes. We have uranium running out of our ears.

Mr. MILLER. You have uranium running out of your ears, but do you mean to tell me within the life of this ship, 20 years, we are going to deplete our oil and it will be cheaper to use uranium?

Mr. MENKE. No.

Mr. MILLER. That is what you are saying to me. You are a very optimistic young man who gazes into those crystal balls.

Mr. BLEWETT. You misunderstood him.

Mr. MILLER. That is just what he said to me. Now, let us go ahead. I look forward to the time that we are going to get these things, but would you spend your own money at this stage of the game for a plant of this kind? You are asking us to spend Uncle Sam's money.

Mr. BLEWETT. We are not asking you to spend Uncle Sam's money. We are just telling you what the situation is.

Mr. MILLER. You may not be asking us to spend it, but you certainly would like to build this ship with Uncle Sam's money. I have that thought. You are not just up here for the fun of it. You would like to see this ship built.

Mr. BLEWETT. We are up here because we have talked to our Congressman and he felt that we ought to come up and let you fellows know what is in the offing.

Mr. MILLER. All right. He is a very good friend of mine. If at the time you deliver this conventional ship you find that you have nuclear power that is as economic or even more so than your oil, you

would feel rather embarrassed, would you not, if you had not been informed on it? You would say, "Well why didn't somebody tell us about that?" I think we would feel embarrassed about a lot of things.

Mr. BLEWETT. No, sir. You get used to being embarrassed after a while.

Mr. MILLER. Yes; you get used to being embarrassed and I think we would feel much more embarrassed if we spent $90 million or $128 million building this ship and she did not prove out. It would not be very nice.

If the nuclear power thing does not prove out, would we not be embarrassed then? Frankly, I think within the next 3 to 10 years maybe we will have this nuclear thing well licked, but I do not know that it is licked now. Out in my district they have completed the first plant to put nuclear energy into public powerlines at Vallecito. General Electric designed this plant. I think it was a 10,000-kilowatt plant, a prototype plant.

I read in the paper the other day where they were getting 15,000 KWs out of it. I think that is going to be the plant for the future and it will develop. I remember the old ferryboats, as I am sure Mr. Allen or Mr. Mailliard would, on San Francisco Bay where, when you wanted to start old Scotch engines in them, a man had to get hold of a big lever until you could get the valves into operation, and that is within my lifetime and maybe you have seen that kind of an engine, so steam developed rapidly.

We are still making improvements in it. Getting back to your statement, suppose we built this. Suppose that we gambled on it and it did not prove out. Would we be embarrased?

Mr. BLEWETT. Mr. Miller, I do not know whether you were in here when I first started off, but what I said is we could not recommend that you build this ship today as we know nuclear power today. We certainly would not, as shipbuilders or as ship designers, said build this ship today with a nuclear-powered plant, but what we do say is that we are on the fringe of a breakthrough on nuclear power and maybe in the course of a very short period of time you will have nuclear power whereby you would be sorry that you had not put it in the biggest ship that is in the world and the most outstanding ship in the world.

Mr. MILLER. I agree with you there. I think we are on the verge of a breakthrough. I think that that is our big problem.

Mr. BLEWETT. That is it exactly.

Mr. MILLER. However, no one can give us assurances just when that breakthrough is going to come. In the meantime, would we be justified in delaying the building of this ship 3 years and then take 3 or 3½ years to get it? That would be 6½ years from now. Would we be justified in doing that, or do we need the capacity of this ship right now?

Mr. BLEWETT. That is the problem that confronts your committee.

Mr. MILLER. That is the big problem.

Mr. BLEWETT. That is right.

Mr. MILLER. That is the decision we have to make. We need this ship to enhance American commerce and American prestige and we need it as a backup for our military, or defense effort. We may need it before you can get her built, so we are not justified, perhaps,

in deferring or waiting for this new power. It is just unfortunate that we are coming to the time when there will be a breakthrough.

Mr. BLEWETT. Yes.

Mr. MILLER. If we make a decision and within 5 years a whole radical change takes place in nuclear power and you will find a reactor that is more efficient than a water reactor, then you would say, "Well, we missed the boat there."

If we do not build her and anything happens, we certainly missed the boat, so it is a hard decision whether we should take the plans and build her with conventional power or gamble. I am satisfied, as you are, that in the not too distant future we will have nuclear power and I think you are right about uranium and I think we will develop ways and means of using uranium in this place so you will get those costs down to relevant costs.

I would not be a bit surprised—it would be cheaper eventually. Maybe 25 years from now it will be much cheaper.

Mr. BLEWETT. When the old law of supply and demand takes effect, uranium will be cheaper.

Mr. MILLER. Yes.

Mr. MENKE. You have a hard decision to make and the tools for making that judgment are just now becoming available. There are several plants that are going to come on the line this year and next year that will help you to make that judgment.

Mr. MILLER. However, will we be justified—I do not know whether we should ask Mr. Blewett or you or anyone else—in delaying the laying down of the keel of this ship until we see the efficiencies of those tools that are coming in being? It is going to take a year or more to evaluate them. If they come in a year, it is 2 or 3 years before they are well evaluated.

Mr. BLEWETT. Of course, there are many factors that have to be considered here. That is the life and usefulness of *America* as it stands today.

Mr. MILLER. I am very much concerned with the fact that if we ever had any trouble, we have a quarter of a million Americans in Europe and in the Orient and there would be the demand to bring them back, and certainly our air is inadequate and would be taxed way beyond capacity. Can you imagine what would happen if a war happened in Europe? Can you imagine the howl and cry that would go up in this country with 250,000 Americans stranded over there? It is something we have never experienced and never had to face before.

The CHAIRMAN. Mr. Pelly?

Mr. PELLY. As I understand, Mr. Blewett, you are a representative of 1 of the 3 shipbuilding companies that has the capability of constructing a sister ship to the steamship *United States*.

Mr. BLEWETT. I think that is somewhat correct. I think there are other companies that could probably construct it, too, if they wanted to put in a little capital expenditure.

Mr. PELLY. You bid, as I recall, in December 1956 on this sister ship?

Mr. BLEWETT. That is right.

Mr. PELLY. I imagine that your bid is a matter of public knowledge.

Mr. BLEWETT. Yes. It was around $112 million.

Mr. PELLY. As against $109 million by the low bidder. In the figure of $112 million that you bid, how much would you say was for defense features?

Mr. BLEWETT. We would have to put it on a percentage basis.

Mr. PELLY. Yesterday you heard Mr. Gibbs say that one-third was the formula that was used for the defense features?

Mr. BLEWETT. No, I did not hear him say it, but let me see what our figures indicate without getting confused with Mr. Gibbs. We analyzed that pretty thoroughly and I think what Mr. Gibbs gave you was probably the results of our analysis when we built the *United States* and we have a percentage basis so that we could take it percentagewise and say the defense features amounted to so much. I think it worked out to be about $35 million.

Mr. PELLY. Did you give a figure as to the defense features to the Maritime?

Mr. BLEWETT. On this ship we have not.

Mr. PELLY. You never were asked to?

Mr. BLEWETT. No. When our bid was $112 million and New York Ship's bid was $109 million, we were out of the picture.

Mr. PELLY. The four factors of the speed, the capacity and the safety and the radius of action you figure are the defense features. You mentioned earlier in your testimony they were four factors that went into the defense features.

Mr. BLEWETT. Yes; that is right.

Mr. PELLY. The figure that you are now about to give me would be an estimate of the total in your $112 million bid that covered those four factors?

Mr. BLEWETT. That is right. It looks about, say $35 million or $38 million.

Mr. PELLY. That figure would go up proportionately if there was an escalator clause, so that the figure you are giving me is the percentage or a figure as against $112 million?

Mr. BLEWETT. Yes. All I did was take the detailed estimate on the *United States*, which incidentally, for the defense features, was around $24 million total, and put it on a percentage basis as to the total of the ship.

Mr. PELLY. The original cost, as I recall, was $73 million.

Mr. BLEWETT. The original cost in our bid was $67 million, I think. The ship cost, with everything else, ended up at about $74 million.

Mr. PELLY. Yes, that is the figure we had earlier in the testimony.

Mr. BLEWETT. That is right, but the shipyard bid was about $67 million.

Mr. PELLY. In other words, it is a little less than one-third and if the Maritime Board was willing to accept some figure on the bid of $109 million as defense features of somewhere around that same percentage, it would seem to me that the ship could be built under the Merchant Marine Act of 1936, as amended, without the requirement of this special legislation, and that seems to be the thing that is blocking this.

Mr. BLEWETT. That figure I gave you I put on the basis of our bid of $112 million. That figure would drop a little bit on the basis of $109 million.

Mr. PELLY. About $1 million loss?

Mr. BLEWETT. Yes.

Mr. PELLY. In 1956, when you bid, were you quite anxious to get that particular award? In other words, was your workload ahead such that it would dovetail? Did you make a pretty close figure when you bid?

Mr. BLEWETT. We always make close figures.

Mr. PELLY. You have a reputation of being very successful. I know that.

Mr. BLEWETT. We figured that ship on the basis of the return cost for the *United States*, which we knew in man-hours.

Mr. PELLY. Did the manner in which the bid came out, requiring it to be firm for 6 months and then, in turn, you would be required to give notice of any change, cause you to raise your price a little bit?

Mr. BLEWETT. No, sir.

Mr. PELLY. In other words, it was a really serious bid.

Mr. BLEWETT. We gave them a serious bid. We gave them a bid that would keep the shipyard running. It is very easy to be low bidder at any time. The job we have is not to be low bidder; the job we have is to deliver the ships and still have the shipyard.

Mr. PELLY. There is one question I would like to ask and that has to do with the operation of a nuclear-propelled ship. How about the crew requirements? Is there more or less crew required to operate a conventional ship as against a nuclear-propelled ship?

Mr. MENKE. I would think in the long run it would require fewer people to operate a nuclear ship.

Mr. PELLY. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Blewett, you had an instrument that you brought up here just now that found an answer for you. Can you take that same instrument and find what the foreign cost would be?

Mr. BLEWETT. No, sir.

The CHAIRMAN. With that you have worked out that one-third is national defense, a third is the differential, and a third is what the operator should put in? Is that about what you found there?

Mr. BLEWETT. The picture runs something like this: That the cost percentagewise, and, of course, we are talking percentagewise and we are not talking definite figures, and the percentages may vary by several percent themselves, for defense features ought to be about a quarter.

The CHAIRMAN. Twenty-five percent?

Mr. BLEWETT. Twenty-five percent. For the owner it ought to be 40 percent, and the remainder for the Maritime Administration.

The CHAIRMAN. Thirty-five percent?

Mr. BLEWETT. Yes; let me check those. You are getting me in a mess here now, Mr. Chairman.

Between the defense features and the Maritime Administration it ought to be about 60 percent anyway.

The CHAIRMAN. Those two items amount to 60 percent?

Mr. BLEWETT. Yes. The Maritime's share and the defense features ought to be about 60 percent of the cost of the vessel. That is the way I think it worked out. We have your answer here. The way it ended up on the *United States* percentagewise on the $78 million basis was the defense features were 32 percent, the Maritime Administration was 27 percent, and the United States Line was 40 percent.

We are going to miss a percent because I am not taking the decimal. That would give a lower percentage for the Maritime Administration and the defense features than I gave you before.

The CHAIRMAN. There is a firm bid, we might say, of $109 million with a provision of escalation.

Mr. BLEWETT. Yes, sir.

The CHAIRMAN. The bid was made a year ago. Have you any idea what the escalation between cost at that time and the cost now would constitute?

Mr. BLEWETT. The escalation of that ship now on the basis of $109 million would be about $111 million.

The CHAIRMAN. The operator has stated that $47 million is the maximum investment they can make in this ship and they have pretty well substantiated that in their testimony, I think. At the percentage figures that you have just given, the 3 different figures, would it make it possible to build this ship at the $47 million invested by the operator?

Mr. BLEWETT. You are putting an embarrassing question to me, but I would say yes.

The CHAIRMAN. I do not know of anybody that is more capable of answering that.

Mr. BLEWETT. I would say yes to that, Mr. Chairman.

If the same percentages were applied on this vessel as were applied on the *United States*, it would mean that the United States Lines would put in $46,750,000.

The CHAIRMAN. Does that mean now that the ship is what I describe a turnkey job, ready to take on passengers, without provisions and those kind of things?

Mr. BLEWETT. Yes.

The CHAIRMAN. Equipment and everything?

Mr. BLEWETT. The answer to that is "Yes," because I am figuring that on the basis of $115 million, which will include naval architects' fees and hotel equipment, over and above the $109 million. That, of course, does not take into account escalation.

The CHAIRMAN. That is operator equipment.

Mr. BLEWETT. Yes; hotel is operator's equipment.

The CHAIRMAN. Your testimony is then that the ship could be built under existing law at the price that the operator says that he can put in the ship?

Mr. BLEWETT. Of course, there is going to be an increase in that price due to escalation.

The CHAIRMAN. You jumped it up to $111 million.

Mr. BLEWETT. Yes. I took the $111 million figure because that is the one that has fins. That was the low bid that carried the stabilizers, not $109 million. $111 million is what you ought to be working on. You should not get me involved in these. I am an also-ran on this thing.

The CHAIRMAN. You volunteered. You may decline to answer.

Mr. BLEWETT. I would be glad to answer, but I am embarrassed to answer.

The CHAIRMAN. The $109 million is a firm bid. The escalation brings that up to $111 million.

Mr. BLEWETT. Mr. Chairman, let me correct you there.

They bid $109 million for a ship without stabilizers. I do not think you would build that ship today without stabilizers, so that will make the ship $111 million.

The CHAIRMAN. The stabilizers would carry a differential percentage.

Mr. BLEWETT. The stabilizer bid makes it $111,600,000, I think. You can check that with Mr. Pierce.

The CHAIRMAN. You mean the $111,600,000 would be without escalation?

Mr. BLEWETT. Without escalation.

The CHAIRMAN. However, that adds something to the ship that was not in the bid at the time the bid was requested?

Mr. BLEWETT. No; it was requested in the bid.

The CHAIRMAN. The bid is without stabilizers, then?

Mr. BLEWETT. That is the bid you have been working on, the $109 million; yes.

The CHAIRMAN. Would you not say the cost of the stabilizers would be divided in the same percentage ratio?

Mr. BLEWETT. Yes; surely.

The CHAIRMAN. I see the Secretary back there nodding his head. We will have him up here in a little while. We want this ship and we want it the best way possible. After all this shadowboxing we have been doing, I am wondering whether I am on the wrong track or the right track, whether or not this question just boils down to the fact whether the ship can be built under existing law for the $47 million that the operator says he can afford to put in the ship ready to operate.

Mr. BLEWETT. Yes, sir.

The CHAIRMAN. I do not know anybody any better qualified than you.

Mr. BLEWETT. We are glad to give you all the information we have, Mr. Chairman, from the information we have and what I picked up and just what we have analyzed, because as soon as we lose a job we do not let it ride. We still examine and we examine it until the time of delivery, too, and we took the ship with fins because I do not think you would build a ship today without the stabilizers. I think it would be silly not to.

Then we have put in the architects' fees and the hotel equipment, and that has brought the total price of that ship to about $115,400,000.

The CHAIRMAN. $115,400,000?

Mr. BLEWETT. Yes.

The CHAIRMAN. That is plus the stabilizers?

Mr. BLEWETT. That includes the stabilizers.

Mr. MAILLIARD. But without escalation.

Mr. BLEWETT. Without escalation.

The CHAIRMAN. What would it be with escalation?

Mr. BLEWETT. That is hard to tell you.

The CHAIRMAN. You had that.

Mr. BLEWETT. That is just for the year that has passed. We have gone up about $2 million in escalation while we have been sitting here waiting. The bid was $109,436,000. We figure today under our invitation to bid you would add escalation to the extent that it would bring the price of your ship up to $110,970,000, or that would be an advance of $1,534,000.

The CHAIRMAN. That is a new figure.

Mr. MILLER. That is with stabilizers?

Mr. BLEWETT. That is less stabilizers.

The CHAIRMAN. What was the last figure? What did that include?

Mr. BLEWETT. We estimate that escalation has now brought the price of $109,436,000—that is the bid without stabilizers—to $110,970,000.

The CHAIRMAN. And with the stabilizers?

Mr. BLEWETT. With the stabilizer you would add about $2,300,000.

The CHAIRMAN. What was this $115,400,000?

Mr. BLEWETT. Then to that you have to add the fees of the naval architect and you have to add the hotel equipment, and that was the $115,400,000.

The CHAIRMAN. That is your rough estimate of what the total cost of the ship would be with escalators, and stabilizers, and architect's fees, hotel equipment; is that correct?

Mr. BLEWETT. As of this day you ought to add about $1,300,000, because of escalation, to that $115 million, so it would now become $116,700,000.

The CHAIRMAN. Get your yardstick out there and divide that up on a percentage basis for me.

Mr. MAILLIARD. Mr. Chairman, would you yield a moment?

There is one other factor I think and that is that escalation applies during the progress of construction.

Mr. BLEWETT. That is right. I was going to bring that point out. This is only escalation up to January. You have 3 more years that that ship is going to be escalated on.

The CHAIRMAN. You are like a friend of mine that had an accident policy. He got hurt. He called on me to read the policy. I said, "Whereas, wherefore, whereas, wherefore," and finally he said, "Get down to the place where they are going to pay me," and it was difficult to ever find that place.

Let us go further, then. You have $116,700,000 and you are going to escalate some more.

Mr. BLEWETT. Yes, sir. I am doing all this for Harry Pierce.

The CHAIRMAN. You certainly are not trying to disillusion Mr. Pierce.

Mr. BLEWETT. No, no; I am trying to get that on the right track; that's all.

The CHAIRMAN. You have $116,700,000.

Mr. BLEWETT. That is right.

The CHAIRMAN. Mr. Mailliard has brought out the fact that he has found additional escalation.

Mr. BLEWETT. The next step would be a guess as to the advance in cost for the 3 years or 3½ years that that ship will be under construction. I think perhaps we could take it percentagewise.

The CHAIRMAN. Based on the present recession in the economy of the Nation today, you are going to predict that it is going up high?

Mr. BLEWETT. Yes, sir. You are going to raise labor wages all next year.

The CHAIRMAN. There are a lot of people looking for jobs today. I understand there are 4 million or so looking for jobs.

Mr. BLEWETT. That does not make any difference. They will still be raising wages.

The CHAIRMAN. What do you estimate now is going to be this escalation based on experience?

Mr. BLEWETT. I am taking it on our bid of the *United States*. We bid $67,700,000 and the ship eventually cost $74 million, I think.

The CHAIRMAN. You mean that was the advance during construction?

Mr. BLEWETT. That ship went up about 11 percent. The increased cost of that ship during its building period was 11 percent.

The CHAIRMAN. What will make this $116,700,000?

Mr. BLEWETT. That would make it about $129,400,000; say $130 million.

The CHAIRMAN. We can have some assurance that that would be about the delivery price plus everything?

Mr. BLEWETT. That ought to be about the delivery price.

The CHAIRMAN. How much is that, did you say?

Mr. BLEWETT. $129,400,000.

The CHAIRMAN. Then divide it up on a percentage basis and let us see what you get. Somebody says it is $128 million; is that correct?

Mr. BLEWETT. Yes, I heard the figure of $128 million mentioned, but we are only $1,400,000 out.

The CHAIRMAN. You think a little matter like that among friends does not matter?

Mr. BLEWETT. Mr. Chairman, here is the way our slide rule indicates it. The United States Lines would have to carry $52,400,000. The Maritime Commission, on the same percentage subsidy that they gave on the *United States*, would carry $34,200,000, the defense features would be $42,800,000.

The CHAIRMAN. So then the United States Line is correct, based on the figures they have presented that they just simply could not invest that much money if their figures are correct?

Mr. BLEWETT. This is $5 million more than theirs.

The CHAIRMAN. A $5 million difference.

Mr. BLEWETT. That is as delivered. That, of course, is by rapid calculations and the Maritime Administration and Mr. Morse and his staff probably have worked that out in detail.

The CHAIRMAN. I appreciate very much your taking this time.

Mr. Dellay?

Mr. DELLAY. Just one question, Mr. Chairman.

I have always felt that the lines of the *United States* are the most beautiful lines of any steamship I have ever seen. I noticed the lines of this ship are quite different. Is there any basic reason for the change in the design?

Mr. BLEWETT. The underwater lines of this ship would be similar to the *United States*, probably. All you see is the bow there, which is given a big rake to produce that speed characteristic; that's all. That is just an artist's conception.

Mr. DELLAY. It does not help in the speed at all.

Mr. BLEWETT. No. That is just an artist's conception of the thing.

Mr. DELLAY. That is more streamlined, a modern design.

Mr. BLEWETT. That is right, modernistic.

Mr. MILLER. Mr. Chairman, I think we should thank Mr. Blewett. He has been an excellent witness.

The CHAIRMAN. Yes, he has been a splendid witness and a splendid gentleman. Your background did not get in the record. Of course, all these people here know it, but somebody might read this record.

Mr. BLEWETT. After graduating from Cornell as a mechanical engineer I went in the Army.

Mr. MILLER. What army and what war?

Mr. BLEWETT. It was not World War II. It was World War I. I was in the Army for a while and in the Air Corps.

The CHAIRMAN. Mr. Miller was, too.

Mr. BLEWETT. After getting out of the Army, I went with Newport News in 1919 and have been with them every since.

The CHAIRMAN. Thank you.

Mr. DINGELL. Perhaps the witness would like to have an opportunity to correct some of the figures that were given if he finds that they are wrong.

The CHAIRMAN. We understand that those figures are rough figures.

Mr. BLEWETT. I assume no responsibility for these figures.

The CHAIRMAN. Thank you very much, Mr. Blewett.

Mr. BLEWETT. I am delighted to be with you gentlemen today.

The CHAIRMAN. I appreciate very much your coming.

The next witness will be the Under Secretary of Commerce for Transportation, Mr. Rothschild. The House is not in session today and these are very serious hearings. With the indulgence of the membership of the committee, this would be a fine opportunity to continue this afternoon, and I hope I may have the approval of the committee to continue the hearing because I am confident we cannot finish with the present witness before the lunch hour, so we will set the reconvening of the committee at 2:30.

You may proceed, Mr. Rothschild.

STATEMENTS OF LOUIS R. ROTHSCHILD, UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION; AND CLARENCE G. MORSE, CHAIRMAN, FEDERAL MARITIME BOARD

Mr. ROTHCHILD. Mr. Chairman and gentlemen, it is always a pleasure for me to appear before this committee. I feel in the first instance I have many friends on the committee. Beyond that I am a great admirer of the accomplishments of this committee both under its present chairman and under his immediate predecessor.

Further along the same line, I think we have all been working for the greatest good to the American merchant marine and all of us recognize the importance of that merchant marine to the affairs of the Nation.

I am appearing before you today to comment on a number of bills which would authorize the construction of superliner passenger vessels for operation in the transatlantic and transpacific services.

H. R. 9342 and several other bills authorize the appropriation to the Department of Commerce of such sums as may be necessary for the construction of a superliner passenger vessel equivalent to the steamship *United States* as a replacement for the steamship *America* for operation on an essential trade route in the North Atlantic. All of these bills except two (H. R. 9473 and H. R. 9654) would permit an award to be made on the basis of existing bids hitherto made by United States shipbuilders on a similar vessel. All of them would authorize the Federal Maritime Board to enter into a contract for the sale of the vessel upon completion to the United States Lines Co.

for a specified price of $47 million. Payment of the purchase price would be made as provided in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended. These sections require that a purchaser shall make a cash payment of not less than 25 percent of the purchase price, with the balance payable over 20 years in equal annual installments. One of the bills (H. R. 9654) would require the vessel to be equipped with nuclear propulsion.

H. R. 9432 and several other bills authorize to be appropriated to the Department of Commerce such sums as may be necessary for the construction of a passenger vessel with passenger capacity of approximately 1,400 for operation on an essential trade route in the Pacific Ocean. These bills authorize the Federal Maritime Board, concurrently with entering into a contract with the shipbuilder for the construction of the vessel, to enter into a contract for the sale of the vessel upon its completion to the American President Lines, Ltd., upon terms and conditions of payment of the purchase price as provided in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended.

Prior to commenting on these bills, I should like to make it clear that there has not been any change in the position of the Department that a merchant marine capable of serving the defense needs of the Nation and adequate for peacetime waterborne commerce is necessary. The Director of the Office of Defense Mobilization has advised your chairman that the conclusion of the Defense Mobilization Board, in its review of the present merchant marine policy, that an adequate merchant marine is essential for defense purposes, and that there is a continuing need for a well-balanced merchant marine fleet, has been affirmed as the policy of the administration.

In implementation of this policy, the budget for the fiscal year 1959 includes an amount of $160 million under the appropriation "Ship construction." This represents an increase of $157 million over the amount appropriated for the fiscal year 1958 for the same purpose. Funds for ship replacements constitute $132 million of the $160 million. As has been the practice since 1954, the funds requested for the ship replacement program cover only the Government's share of ship construction; that is, payments for construction-differential subsidy and national defense features.

As you know, the budget for the fiscal year 1958 which was submitted to the Congress included a request of $95 million for ship construction. This amount included funds to pay the Government's share of the cost of replacing the *America*. The Congress appropriated only $3 million for ship construction. No amount has been included in the budget for the fiscal year 1959 to cover the Government's share of the cost of replacing the *America* because of other overriding budget considerations.

This Department appreciates that there are a number of reasons for considering replacement of the *America* with a passenger vessel equivalent to the *United States*. The former vessel will become 20 years of age during 1960, and the operating-differential subsidy agreement of United States Lines provides that the agreement shall terminate on August 1, 1958, with respect to the *America* unless the operator makes a formal commitment prior to that date for replacement of the vessel with new construction. The additional annual passenger-carrying capacity resulting from replacement with a vessel equivalent to the

United States, approximately 2½ times that of the *America*, would be available for troop and material carrying in the event of war or national emergency. An added reason is the fact that foreign-flag lines are building new passenger ships to replace and augment older units.

During 1957, the Holland-America Line placed the 955-passenger *Statendam* in its North Atlantic service, and now has under construction the 1,300-passenger *Rotterdam*. The Swedish-American Line placed its new 840-passenger *Gripsholm* in transatlantic service in 1957, and the French Line has announced the keel laying of its 31-knot, 2,000-passenger *France*, which is in the *United States* class.

During the course of his testimony, Mr. Clarence Morse, Chairman of the Federal Maritime Board and Maritime Administrator, will also comment on the need for replacing the *America*, the actions taken by the Board in this respect, and the advisability of making an award on the basis of existing bids hitherto made by the United States shipbuilders.

The Department indicated its strong support of the desirability of replacing the *America* by including a request for funds for such a purpose in the 1958 budget which was submitted to the Congress. It continues to have an equivalently strong opinion as to the desirability of this action. It believes, however, that the replacement vessel should be constructed under the provisions of the Merchant Marine Act, 1936, as amended, and in accordance with the budgetary policy of the administration. This policy, which has been in effect since 1954, calls for private financing of the purchaser's portion of the cost, with Government aid as to that portion limited to Government insurance of the private loan and mortgage under title XI of the Merchant Marine Act, 1936, as amended. One purpose of this policy is to effect a reduction in the amount of appropriations necessary to carry out the merchant marine program. Another is to place the financing of merchant-ship construction in private hands.

In this connection, I should like to point out that the ship-mortgage-insurance program under title XI of the act has operated very successfully. As of September 1957, the total amount outstanding on insured construction and conversion loans, as distinguished from mortgage loans, was approximately $109 million. When the ships are completed, these loans will be replaced by insured mortgage loans. This amount, when added to the insured mortgage loans already in effect, will result in total mortgage loans insured under title XI of about $133,400,000. Based upon the expanded activity anticipated in this field, it is expected that by the end of the fiscal year 1959 insured ship loans under this title will exceed $600 million.

The Department also does not favor sale of the replacement vessel to the United States Lines Co. at a fixed price of $47 million. The Merchant Marine Act, 1936, as amended, now provides for subsidizing the construction of vessels for operation on the essential foreign trade routes of the United States in an amount not exceeding 50 percent of the domestic construction cost of the vessel and provides for the full payment by the United States of the cost of national defense features incorporated in the vessel. The Department of Defense examines and passes upon the suitability of new vessels for use in national defense. The specified sales price of $47 million could be less than the portion of the cost of the vessel which should be borne by the purchaser under these provisions of the act. It would be

unfortunate under such circumstances to set a precedent for a specified statutory determination in lieu of the administrative determination and computation of the construction differential subsidy and the cost of national-defense features as provided in the 1936 act.

The Department also does not believe that the replacement vessel should be equipped with nuclear propulsion, as provided by one of the bills (H. R. 9654). The nuclear-powered nuclear ship *Savannah* will be available in 1960, and the information obtained from the operation of this vessel should be evaluated in determining the economic competitiveness of present nuclear-propulsion plants against those of conventional power. Also, there is great likelihood that nuclear research and experiment will make a currently constructed powerplant obsolete before the end of the useful life of the vessel.

For the reasons which I have stated, the Department recommends that the bills authorizing the construction of a replacement vessel for the *America* be amended so as to provide for the construction of such vessel under the private financing provisions of section 504 of the 1936 act, with payments for construction-differential subsidy and national-defense features as provided in that act.

The reports which have been submitted to your committee on H. R. 9342 and H. R. 9654 suggest the amendments necessary to carry out this recommendation.

I think I should point out that these reports stated that, although the Bureau of the Budget believes that it would be desirable to have a replacement for the America built at the appropriate time under the wholly adequate provisions of existing law, it did not object in this particular case to special authorizing legislation which incorporates provisions of the Merchant Marine Act, 1936, as amended, relating to payment of a construction-differential subsidy and providing for private financing. The Bureau also stated enactment of such legislation should not be construed as conferring a priority for appropriations without regard to other scheduled ship construction.

Concerning the bills which would authorize construction and sale to American President Lines, Ltd., of a passenger vessel for operation in the Pacific Ocean, the budget for the fiscal year 1959 includes $132 million for the ship-replacement program. Part of this amount will be used to cover the Government share, payment of construction-differential subsidy and national-defense features, of the cost of construction of such a vessel by American President Lines Ltd. Preliminary plans call for a 26-knot liner about 900 feet long, accommodations for 1,460 passengers, and gross tonnage of about 45,000. The total estimated domestic cost, including escalation, changes, owner's items, et cetera, but without national-defense features, is approximately $76 million. In the Department's budget estimates for 1959, which are now before the Appropriations Committees, provision has been made for $34 million as the Government's share of the cost of the vessel. Mr. Morse will comment on the plans in greater detail in his testimony.

In view of this, the Department feels that satisfactory progress is being made toward the construction of a vessel similar to that proposed by these bills. If your committee gives favorable consideration to H. R. 9432 and the other bills, they should be amended so as to provide for construction of the vessel by American President Lines, Ltd., under the private financing provisions of section 504 of the Merchant Marine

Act, 1936, as amended, with payments for construction-differential subsidy and national-defense features. The Department is submitting a report on the bills which will suggest amendments necessary to accomplish this.

Mr. Morse and I are both here, Mr. Chairman, and we would be glad to answer any questions which the committee may have.

The CHAIRMAN. Mr. Rothschild, the United States Lines, it is generally accepted, is the only operator that can operate a ship of this type. That is generally understood, is it?

Mr. ROTHSCHILD. I would think that they would have first call in the field; yes, sir.

The CHAIRMAN. However, they are the only ones interested in this type of an operation.

Mr. ROTHSCHILD. They are the only ones who have gone as far as they have. I do not believe the field has been totally explored, Mr. Chairman.

The CHAIRMAN. They have come before the committee and made a firm statement that $47 million is the maximum amount they can invest in the vessel. They have substantiated that with the record of the existing ship, the percentage of earning on it. Then we have here this morning practically established a $5 million difference. Did you read the statement of Admiral Wilson, which I sent you by special messenger?

Mr. ROTHSCHILD. I did, sir.

The CHAIRMAN. With his testimony and these facts we have before us, what is the solution?

Mr. ROTHSCHILD. Mr. Chairman, Mr. Morse, in his testimony, will indicate to you and your committee some differences of opinion that we have regarding the figures which were put into the testimony by General Franklin, and may I say that I have only the highest regard for General Franklin and his associates and the company.

The CHAIRMAN. I am sure of that.

Mr. ROTHSCHILD. There are, however, generally two or more ways of looking at any problem.

As I recall General Franklin's testimony, his percentage of earnings has been applied in nearly all cases, perhaps all cases, to the whole cost of the vessel.

In our calculations you will find that we have applied our calculations, as we think the law indicates, to the investment of the United States Lines in the vessel at any particular time, and the recapture provisions, you will recall, Mr. Chairman, are all based on capital necessarily employed.

In calculations of that kind, we do not consider, nor do I think anyone else does, the use of borrowed money as capital necessarily employed by an operator.

To continue a bit further, I consider this testimony on the part of the United States Lines to be in the nature of a normal commercial transaction, and I spent quite a few years in business before I came into the Government, and I can recall no instance in my experience when a purchaser, and that is, in this case, represented by the United States Lines, made his first bid his final bid.

The CHAIRMAN. So, you think there is room for negotiation on both sides?

Mr. ROTHSCHILD. Yes, sir; I do.

The CHAIRMAN. Because you have not gone to the maximum of the provisions in the 1936 act as of yet?

Mr. ROTHSCHILD. If you, by that statement, have reference to the 50-percent allowable, that is correct, Mr. Chairman.

The CHAIRMAN. I want to ask you this: As between dry-cargo vessels and special-type ships of this class, should or should not this vessel be given consideration?

Mr. ROTHSCHILD. Special consideration to a passenger vessel, do you mean?

The CHAIRMAN. Yes, sir.

Mr. ROTHSCHILD. I think that is automatic in the calculations of the Board, Mr. Chairman. There is, as I recall, it, a larger percntage differential in cost between foreign and domestic costs involved in a passenger vessel than there is in a dry-cargo vessel.

The CHAIRMAN. On page 3 of your testimony, you speak of the budget for 1956 including $95 million for ship construction.

Mr. ROTHSCHILD. Yes, sir.

The CHAIRMAN. Is it not fair to say that, when the Appropriations Committee called you and the Secretary before it, you did not hold out for this amount of money?

Mr. ROTHSCHILD. I think we defended that amount quite vigorously, Mr. Chairman, before the House Appropriations Committee, and it was clearly evident during the hearing that we were not getting sympathetic reaction.

The CHAIRMAN.That is your statement.

Mr. ROTHSCHILD. Yes, sir.

The CHAIRMAN. You held out for it?

Mr. ROTHSCHILD. We certainly did, sir, before the House.

The CHAIRMAN. I just wanted to get the other side. I had heard differently. I just wanted to get your statement on that. Did you hold out for it when you went to the Senate?

Mr. ROTHSCHILD. No, sir; we did not appeal this item to the Senate and the reason we did not was because of the atmosphere that we had found in the House. The subcommittee which heard our appropriations request was most unhappy at the fact that we had carried over from previous appropriations and had uncommitted some $90 million shipbuilding funds and they thought that there was no necessity or reason to add to that amount at that time.

The CHAIRMAN. The Board has never reached the maximum percentage in the construction cost that is allowed in the act?

Mr. ROTHSCHILD. I belive not, sir.

The CHAIRMAN. The highest that you have ever gone is what figure?

Mr. MORSE. The highest in recent years—recent months, as a matter of fact—has been 45 percent. That is for a cargo ship only, though, Mr. Bonner.

The CHAIRMAN. That was a cargo ship. The highest you have ever gone in the passenger ship is what percentage?

Mr. MORSE. On the Moore-McCormack and the Grace ships, as I recall, they were in the neighborhood of 42 or 43 percent but those rates were computed a year and a half or 2 years ago.

The CHAIRMAN. On strictly passenger vessels.

Mr. MORSE. Those were passenger vessels.

The CHAIRMAN. You are correct. So the highest you have gone is 42 percent?

Mr. MORSE. Yes, sir. Our tentative thinking at the present time is in the area of 47 percent on the *America* replacement.

The CHAIRMAN. Forty-seven percent is the cost on the replacement. The differential in what was allowed on it would be about 2 percent, would it? You would escalate it up just about 2 percent on this ship? You would raise it about 2 percent above the maximum you were heretofore allowed?

Mr. MORSE. Yes, sir.

The CHAIRMAN. That would be how much in dollars and cents on the estimated cost of this ship?

Mr. MORSE. It depends on what base we start with, whether we are talking about 28½-knot ship or whether we are talking about a 30.7-knot ship.

Mr. ROTHSCHILD. Based on a 30.7-knot ship, Mr. Chairman, the national defense features including escalation would be about $22.5 million and the Government subsidy would be about $50 million.

The CHAIRMAN. It would be $50 million?

Mr. ROTHSCHILD. About that; yes, sir.

The CHAIRMAN. What would be the defense features?

Mr. ROTHSCHILD. $22.5 million.

The CHAIRMAN. Would it be fair to say, then, that that is pretty close to the figure that the United States Lines says they can put in this ship?

Mr. ROTHSCHILD. Based on a whole cost of $128 million, Mr. Chairman, that would leave the United States Lines' share at $55.7 million.

Mr. MORSE. That is on a 30.7-knot ship.

Mr. ROTHSCHILD. That is right. That is what I said.

The CHAIRMAN. You propose not to take into consideration the difference between the normal ship speed required for the trade and the ship that the armed services desires? You are going to charge that difference in speed to the operator?

Mr. ROTHSCHILD. No, sir. May I explain that for a moment, Mr. Chairman?

The CHAIRMAN. Am I clear, Mr. Morse?

Mr. MORSE. Quite clear, but the answer is "No" to your statement. It requires explanation.

The CHAIRMAN. All right.

Mr. ROTHSCHILD. The proposal of the United States Lines contemplates that national defense features, of which speed is the largest and most important factor, shall be based on 28½ knots, which is the speed of the *Queen Elizabeth*.

The administration's position is that that is an unrealistic figure as of now because the *United States* has been operating over its life at 30.7 knots.

Mr. Chairman, we have the feeling that the operator would not have operated at that speed unless there had been some commercial reason for so doing.

The differential, therefore, as to the amount of money which would be considered national defense features varies with what one would consider the commercial speed of the ship.

We are considering it for the purpose of this present discussion to be 30.7 knots.

The CHAIRMAN. Your figures, then, are $56.9 million for the operator; is that right?

Mr. ROTHSCHILD. $55.7 million.

The CHAIRMAN. They say the maximum they can put in the ship is $47 million.

Mr. ROTHSCHILD. Yes, sir.

The CHAIRMAN. Is there a possibility of adjusting that between Maritime and the United States Lines?

Mr. MORSE. This question of speed?

The CHAIRMAN. This little matter of $8.7 million.

Mr. MORSE. No, for two reasons. I think that a 47 percent construction subsidy rate is a very reasonable rate under today's conditions, so that we get back to the fundamental question of the commercial equivalent.

The operator has been operating this ship at 30.7 knots ever since its being put into operation.

I think I would have been criticized at this committee level and I know I would have been criticized at the General Accounting Office level had I said that the replacement of the *America*, the commercial equivalent would be 28½ knots.

We have asked on an informal basis of GAO whether they would have gone along with 28½ knots as a commercial ship and they said "No," they would not.

Therefore, under the law, under that informal view of GAO, we have no alternative but to refuse to approve 28½ knots as a commercial equivalent.

The CHAIRMAN. In the light of the strong statement that was made by Admiral Wilson, representing the National Defense, would you think that this committee should not give serious weight to it and pass out some legislation that would make the creation of this ship possible?

Mr. ROTHSCHILD. It is my view, Mr. Chairman, that this committee should pay proper attention and give considerable weight to all the testimony that has come before it, including Admiral Wilson's testimony.

The question of whether or not this differential in price can be resolved could be helped a good deal, it seems to me, if this committee were to specify what the national defense allowances or what the national defense features should be for this one vessel.

The reason for that is that this vessel costs so much more money than any other one with which we are dealing that there might be reason for special consideration on national defense features.

The CHAIRMAN. I am glad to hear you say that, Mr. Secretary, because this committee did not go into this matter of its own volition.

Mr. ROTHSCHILD. No, sir; I realize that.

The CHAIRMAN. It was brought to the attention of the committee that this was a serious matter and that this ship was greatly needed, and it appeared that the ship could not be constructed under the 1936 act. Now the question is whether the Congress, whether the American people, want this ship. Certainly the testimony that has been given before the committee indicates a serious situation unless we do have this ship, so that this committee wants more than your opposition. We want some advice from you.

Mr. ROTHSCHILD. Surely, Mr. Chairman, we indicated the Administration's strong support of the idea of a replacement when we included funds in the 1958 budget, which would have made it possible to build that ship.

The CHAIRMAN. Why did you not do it this year?

Mr. ROTHSCHILD. Sir, it is a very practical consideration. The fact that there is $160 million for ship construction in the 1959 budget did not come about without a good deal of effort.

The CHAIRMAN. And that is due to the lack of money having been placed in the budgets heretofore during the past 5 years, is it not?

Mr. ROTHSCHILD. I believe not, sir.

The CHAIRMAN. It is because of that that this obsolescence blockade has been created. I want to be fair, Mr. Rothschild.

Mr. ROTHSCHILD. I think you will find that there has been more shipbuilding money available to the maritime in the last few years than any other time during the peacetime history of the country.

The CHAIRMAN. Is that 4 years or 2 years?

Mr. ROTHSCHILD. I do not have those figures in my mind, but we could develop them for you, sir, and make them part of the record if you so desire.

The CHAIRMAN. Mr. Morse knows what the figures have been over the last 5 years, we will say.

Mr. MORSE. We have approximately 120 to 130 million dollars carryover from previous years' appropriations. As I recall, that is from fiscal years 1956 and 1957 money.

The CHAIRMAN. The last 3 years. We are not here to argue about this thing. We are here to find some solution to this problem.

Mr. ROTHSCHILD. That is our view, too, Mr. Chairman.

The CHAIRMAN. With respect to this interest business, that is a big item in this case. You have the authority to go either way.

Mr. ROTHSCHILD. Yes, sir.

The CHAIRMAN. I know you are not going to be stubborn and hold to just one way without giving weight to the testimony that has been presented to this committee that it is practically impossible to finance the ship your way; and it has been stated here that it will not cost the Government any money.

Mr. ROTHSCHILD. I do not believe we quite agree with the statement that it is impossible, Mr. Chairman.

The CHAIRMAN. You do not agree that it is impossible?

Mr. ROTHSCHILD. No, sir.

The CHAIRMAN. However, that will make the cost a good deal more than this differential of $8,700,000. How much will that shoot it up?

Mr. ROTHSCHILD. Mr. Morse, I think, has some detailed figures on that in his statement, but we do think that the representations of the United States Lines have been on the high side, particularly in view of the fact that the money market is softening, has softened in the last few weeks, and, if I read the general's statement correctly, he indicated that there was three-quarters of 1 percent for a mortgage insurance fee, whereas in fact the fee is one-half of 1 percent.

I believe that in the statement that was given by American President Lines they indicated there would not be a significant difference in money costs between the provisions of one part of the act and the provisions of title XI.

The CHAIRMAN. Mr. Allen?

Mr. ALLEN. Thank you, Mr. Chairman.

Mr. Rothschild, in your statement, on page 6 or page 5, you speak about the Bureau of the Budget being in favor of this ship at an appropriate time. What determines what is the appropriate time in the view of the budget?

Mr. ROTHSCHILD. I am not sure that I can answer that, but my own view would be, Mr. Allen, that the appropriate time would be when the Congress made such a decision.

Mr. ALLEN. Is that moneywise or saying that the ship should be built, or just what kind of a decision?

Mr. ROTHSCHILD. The Bureau says, as I read their statement, that they are in favor of the building of the ship and the last part of their statement which I quoted, which says that "such legislation should not be construed as conferring a priority for appropriations" to me says that this should not be the only ship building we should consider, that the regular appropriation of $160 million should not be affected by this. That is the way I interpret that.

Mr. ALLEN. There would be nothing in this statement that indicates that the ship should not be built right away?

Mr. ROTHSCHILD. There is nothing in this statement at all that indicates anything but support for the building of a replacement.

Mr. ALLEN. One other thing on which I would like your judgment is this: There was a proposal that the Congress enact a bill fixing a price to the United States Lines. Does the pendency of that legislation stop any other negotiations until we decide which way we are going?

Mr. ROTHSCHILD. I would think so.

Mr. ALLEN. Then what it amounts to is that, until this committee either passes the bill or passes a substitute, you are sort of out of business in negotiations?

Mr. ROTHSCHILD. Pretty much, yes, sir.

Mr. ALLEN. Getting at the question of speed, I know that you set forth the speed of the French Line ship at 30 knots, but none of the others are mentioned. Do you know what the foreigners are building by way of speed?

Mr. ROTHSCHILD. I am told that that should be 31 knots in the case of that ship instead of 30, and that the statement is incorrect at that point. I think we do have some information on the others.

The CHAIRMAN. Mr. Reporter, I would like to have it noted in the record that the gentleman from California, Mr. Shelley, is present. He is a very distinguished former member of this committee and greatly interested in the subject we are discussing.

Mr. SHELLEY. Thank you, Mr. Chairman.

Mr. MORSE. The only foreign ship on which we had the speed is this French ship of 31 knots. We will supply, during the afternoon, the speed of the most recently built foreign ships in the transatlantic trade, but they are not comparable to the *America* replacement that we are talking about. They are slower ships.

The CHAIRMAN. When you got that information, you did not happen to get any information about where France is going to get the money to build this ship, did you?

Mr. MORSE. No, sir.

The CHAIRMAN. Do you happen to know?

Mr. MORSE. No, I do not know, sir.

Mr. DINGELL. Will the chairman yield to me along those lines?

The CHAIRMAN. I do not want to interrupt Mr. Allen.

Mr. ALLEN. I would like to get this speed business cleared up. When you state that the French line ship will be built at 31 knots, is that the cruising speed that will be used or is that the fastest speed the ship could travel with the expectation that it would travel at a lesser speed?

Mr. MORSE. It is my understanding that that is the designed service speed. At what speed they will operate it I would not know. I would assume that it would depend on whether they go into Cherbourg or Le Havre. The question would turn on which of those ports they used as to whether they used the 28½-knot speed or the 31-knot speed.

Mr. ALLEN. Do you know what ships held the blue ribbon before the *Queens?*

Mr. ROTHSCHILD. The *Mauretania* at one time, I believe, Mr. Allen.

Mr. ALLEN. What was the speed of the *Mauretania?*

Mr. MORSE. Let us supply it for the record for the last 50 years. I think we can get it and have it this afternoon.

Mr. ALLEN. When you consider the record of the past 50 years, does the trans-Atlantic trade involve a fixed speed, or is it a speed that over the years has increased regularly with every improvement in ship propulsion?

Mr. MORSE. It involves two factors. One is the turn-around time that they require for the operation, and the second is sort of a blue-ribbon factor, a prestige factor.

Mr. ROTHSCHILD. Generally speaking, your statement is correct, that the speeds have increased over a long period of years, beginning with the first introduction of steam vessels.

Mr. ALLEN. Would that indicate that the speed at which the *Queens* were designed continues to be the commercial speed across the Atlantic, or is that subject to change without notice, too?

Mr. ROTHSCHILD. It would be my guess that any ships designed to replace the *Queens* would be designed for higher speed than the *Queens.*

Mr. ALLEN. Would that, then, become sort of a standard commercial speed?

Mr. ROTHSCHILD. It would certainly be a competitive factor.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Rothschild, the statement that you made that all negotiations for replacement construction were stymied or stopped due to this legislation gives me great concern. I had no idea at the time this legislation was introduced that any such condition would arise. I am very disappointed to hear you say that, because we are dealing here with something that is special. We are not dealing with normal replacement of the American-flag ships. I doubt whether there will be any other legislation similar to this. I seriously doubt that. I am very disappointed.

Mr. Boykin?

Mr. BOYKIN. I am glad to have Mr. Rothschild up here because he has such an understanding heart and such a brilliant brain and he gives us good ideas. He always cooperates with us.

I, too, Mr. Chairman, am sorry we have not gone on and built this ship a long time ago. Maybe if we could have all gotten together we could have found a way to run it. I believe we can do it now.

I would like to ask Mr. Rothschild if he were in the chairman's chair here what he would suggest to this committee. We are very anxious to do something and to do the right thing. I think we ought to have this ship faster than that beautiful ship which is the best in the world because, as you just said, I think they are going to build faster ships as we go along and we certainly want to have the very best that can possibly be built.

I think that Mr. Blewett who just spoke gave us some fine information. I think he certainly knows a lot about the subject and I am going to talk to him a little bit when we leave here, but I was so anxious to hear you.

What would you suggest that Mr. Bonner do about this?

The CHAIRMAN. Do not place the responsibility on me but on the committee.

Mr. BOYKIN. Well, the committee then. I think we ought to do something and I think we ought to hurry it. I think we should have done it a long time ago. I do not think we ought to put it off any longer and I think we are all in the same boat.

What would you and Mr. Morse and the Commission suggest, Mr. Secretary, that this committee do?

Mr. ROTHSCHILD. Before I answer that question, Mr. Boykin, I would like to point out that the *United States* and a sister ship of the *United States*, if built to the same specifications, has the capability of considerably greater speed than the speed at which it is currently being operated, so that the chance of any other nation building a ship or ships which would cause discomfort in the matter of speed is very remote. Beyond that, I suggested a few moments ago that I thought there were two ways in which the committee might make it possible for the Maritime Administration, within the limits of the 1936 act, to make it possible to get this vessel built. One would be to specify in dollars the amount of the national defense allowances. The other would be to specify by item those features of the ship which could be considered for national defense allowances.

Mr. BOYKIN. Both ways.

Mr. ROTHSCHILD. It would not be necessary to do it both ways, I do not believe, but maybe it would.

Mr. BOYKIN. Maybe we could try it out both ways and see which would be the better.

The CHAIRMAN. Mr. Rothschild, that is the responsibility of the Maritime Administration. This committee is not going to accept the responsibility of doing the figuring.

Mr. ROTHSCHILD. I am sorry. I did not hear you.

The CHAIRMAN. I say what you suggested is the responsibility of the Maritime Administration.

Mr. ROTHSCHILD. I did not suggest that the figuring should be done by the committee, but I do think that we could furnish you with enough information so that you could consider either of those possibilities.

The CHAIRMAN. What you are here for today is to give us the information.

Mr. MORSE. May I suggest, Mr. Bonner, that if legislation was adopted which says that the commercial ship is 28½ knots, we have no problem. That is our problem, because we cannot accept 28½ knots as the commercial equivalent in view of the informal views we have obtained from the General Accounting Office and in view of the past operating expense of the steamship *United States*.

Mr. BOYKIN. What would you suggest, then, that we do about that?

Mr. MORSE. Enact legislation saying that either as to this specific ship there be a deviation from the 1936 act or specifically that 28½ knots is the commercial ship for this purpose.

Mr. BOYKIN. Mr. Morse, just think how things have changed since 1936. I think we ought to have a change and I think we ought to bring it up to date, do you not? I was here in 1936 sitting on this committee at the time we did that. I got off the committee and got back on again. I think we ought to do something now, something definite and something new, and up to date, and I believe we can do it.

I think you have a great group down there. Your assistant down there, your Commissioner, Ben Guill, and I talked about an hour or two the other day about this, and, Mr. Rothschild, I think we ought to do something.

The CHAIRMAN. Who set this 28-knot commercial speed? It was not set by legislation, was it?

Mr. MORSE. No, sir.

The CHAIRMAN. Is it binding on you?

Mr. MORSE. We consider that 30.7 is binding on us.

Mr. BOYKIN. Let us unbind him, Mr. Chairman.

I think that is all he wants, is it not?

Mr. MORSE. Yes.

The CHAIRMAN. But there has been no legislation to set the figure that we are discussing?

Mr. MORSE. No, sir.

The CHAIRMAN. That is still in the administrative province.

Mr. ROTHSCHILD. As constrained by the GAO.

The CHAIRMAN. What brings on the informal advice from GAO?

Mr. MORSE. I requested it.

The CHAIRMAN. Then where do they get their determination?

Mr. MORSE. I cannot express their thinking, but presumably from the fact that the steamship *United States*, for the last 5 years, has been operating at an average speed of 30.7 knots.

The CHAIRMAN. And that is not a commercial speed?

Mr. MORSE. I would say that that is a determination that 30.7 is the commercial speed.

The CHAIRMAN. What do they say about that?

Mr. MORSE. I have a memorandum on that, sir. Without looking up the memorandum, they say informally that 30.7 would be the minimum commercial speed, and, depending upon how the ship is operated in conjunction with the steamship *United States*, their thinking might be higher than 30.7 as the commercial speed.

The CHAIRMAN. Did you finish, Mr. Boykin?

Mr. BOYKIN. I think I finished.

I would like to just let Mr. Rothschild state whether he has any suggestion as to what we should do that would help him and Mr. Morse and the other Commissioners down there to do what they want

to do, because we have lost so much valuable time that it has cost this country so much money and I believe all the people now want to do whatever is the proper thing to do to get some results and get some good ships. I think we have lost a lot of time by not having this meeting a couple of years ago.

Mr. ALLEN. Would you yield for a question?

Mr. BOYKIN. Yes, I certainly will, Mr. Allen.

Mr. ALLEN. If the Congress would determine that 28½ knots was the commercial speed, would that then make the commercial vessel in effect a twin-screw vessel to be compared with the vessel that would be built and in effect make it an adjustment that would come out about $47 million in cost to the United States?

Mr. MORSE Yes. Our estimate of the commercial vessel of 28½ knots and without fins is $44,900,000 as the owner's cost.

Mr. ALLEN. Thank you, Mr. Boykin.

Mr. BOYKIN. That is all, Mr. Chairman.

Mr. MORSE. In other words, with fins it would be in the neighborhood of $46 million or a fraction more.

The CHAIRMAN. Mrs. Sullivan?

Mrs. SULLIVAN. Mr. Chairman, may I get off of that subject for a moment and try to develop some figures of the actual need for passenger vessels?

I understand that about 90 percent of the passenger business is made up of American citizens, and what I would like to know is what we can do to get more American passengers on our American ships instead of foreign ships. Can you tell me, Mr. Morse or Mr. Secretary, what the passenger ship accommodations in all passenger travel was in United States and foreign ships back before World War II, say in 1938, 1939, and 1940?

Mr. ROTHSCHILD. I am sure we can supply that for you, Mrs. Sullivan, but to answer the first part of your question, the best way to get more Americans to travel in American bottoms is to have more ships with more capacity.

Mrs. SULLIVAN. The thing that I would like to bring out, Mr. Chairman, is this: that the figures that I was able to get show that back around 1938 the United States passenger ships were carrying about 31 percent of the passengers and in 1957 they were carrying about 31 percent, but in about 1954 and 1955 we were around 40 percent, so that, instead of carrying more, we are carrying less passengers today than we did a few years back in United States ships.

Mr. ROTHSCHILD. I must not have heard your figures then, Mrs. Sullivan. Did you say that lately we are carrying 40 percent?

Mrs. SULLIVAN. I said that in 1938, before the war, we were carrying about 31 percent.

Mr. ROTHSCHILD. Of the total crossings?

Mrs. SULLIVAN. Of the total number of passengers traveling to any port.

In 1957, last year, it was 31 percent, but it had gone up in 1954 and 1955 to about 40 percent and 41 percent, so that it went up and now we are down again.

Mr. ROTHSCHILD. Based on some figures I have seen where the *United States* has been running at almost 100 percent capacity ever since it went into service, it would not seem possible that we could add many more with that vessel.

The *America* has a very much smaller carrying capacity than the *United States*. If the replacement for the *America* were a ship of the size equivalent to the *United States*, then we would have additional capacity and that should pick up our percentage participation.

Mrs. SULLIVAN. My thought behind this was that, since most of the passengers are American, we should have a greater participation of carrying the passengers in American flag ships.

Mr. ROTHSCHILD. I am sure that would be desirable.

Mrs. SULLIVAN. Why has it not been done? Is it not profitable to the commercial owners?

Mr. ROTHSCHILD. If you sell out all the space you have, Mrs. Sullivan, it is just not possible to carry any more people than you have space for.

Mrs. SULLIVAN. However, they have not been building enough additional ships in order for the American ships to carry more of the passengers.

Mr. ROTHSCHILD. I would think the representatives of the United States Lines could answer that particular question perhaps better than we could.

Mrs. SULLIVAN. Then the thought behind that was that, if the commercial owners of the ships do not do more to build the ships, is that a problem or is that a responsibility of the Maritime Administration?

Mr. ROTHSCHILD. All of the subsidized operators operate under contract with the Government and those contracts provide for the operation of so many ships and so many sailings and certain types of ships, and so so, all within the limits of the money possibilities both from the operator's point of view and from the Government's point of view.

This is an involved procedure that you have opened up.

Mrs. SULLIVAN. I know it is involved, but my thought was that, instead of increasing our passenger accommodations, the United States seems to be decreasing and foreign ships are taking over.

I just wanted to know if you felt that it was a problem of the Maritime Administration to see that something is done to get us more American business.

Mr. ROTHSCHILD. In my statement I indicated that several foreign nations have added new passenger accommodations on the North Atlantic run, and that may be a factor, too.

Mrs. SULLIVAN. And they will be taking more away from us.

Mr. ROTHSCHILD. We look pretty good up to now I am told. There have been instances where the *United States* has run full and its competing ships have been running very much less than full in quite a few instances.

The CHAIRMAN. Will you yield?

Mrs. SULLIVAN. Yes.

The CHAIRMAN. In answer to your question, it is the responsibility of the Department of Commerce and the Maritime Administration to promote the carrying of our proportionate share of ocean traffic.

Mrs. SULLIVAN. It was my idea, also, Mr. Chairman, and I felt that something ought to be done.

The CHAIRMAN. It is their responsibility as well as that of the private operator to promote it.

It is now 12:30. The committee is going to sit this afternoon.

We will begin with Mr. Mailliard this afternoon and then Mr. Miller.

We stand adjourned until 2:30.

The witnesses now testifying will return at 2:30.

(Whereupon, at 12:30 p. m., a recess was taken until 2:30 p. m., this same day.)

AFTERNOON SESSION

The committee reconvened at 2:30 p. m., upon the expiration of the recess.

The CHAIRMAN. The committee will come to order.

We will continue with the Under Secretary and Mr. Morse.

STATEMENTS OF LOUIS S. ROTHSCHILD, UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION, AND CLARENCE G. MORSE, CHAIRMAN, FEDERAL MARITIME BOARD—Resumed

Mr. MILLER. Mr. Secretary, I have sat here listening to this question which has been quite enlightening, but I have some thoughts, and I would like to see if you can resolve them for me.

One is that I think there is a great difference between luxury passenger ships such as we are discussiong in this case, and which are entirely essential—I do not mean luxury in the sense that ships are superficial, have defense features and that sort of thing, but there is a great deal of difference in the approach to that and the approach we make to styleized ships such as tankers, cargo ships.

Do these not pose special problems?

Mr. ROTHSCHILD. I would think, Mr. Miller, that their existence and their influence would be known to a great many more people than would cargo ships and tankers; people, after all, think in terms of passenger accommodations more often than they do in terms of the other kind of ships except of course, those people who are in the shipping business.

Mr. MILLER. That may be true. The average person who is not familiar with the sea may visualize a passenger ship and a luxury passenger ships that is well advertised through all of the topflight advertising medium, just as some person who is not too knowledgeable about transportation might look upon the Superchief or some crack train as being a railroad system, but you and I know that on the cost of the railroad system and its value to the country, we are discussing maybe the lowly freight car and the gondola the fellow who packs the freight pays most of the freight.

In this case under the act, was not the act created more to take care of the workhorse of the merchant marine rather than these ships that are the showplaces of the merchant marine?

Mr. ROTHSCHILD. I do not know about that, Mr. Miller. All I can say is that it was passed in 1936. That is 22 years ago and conditions have changed materially in all lines in the intervening years.

Mr. MILLER. I think that is right.

I just wonder if they have not changed to the point where when we consider the replacement of these ships that we do not have to consider each is a sort of special problem and we cannot apply to them the same thinking and same rules that you would apply to the conventional type ship that is not designed primarily as a passenger ship.

Is there any basis for that statement?

Mr. ROTHSCHILD. I would think, sir, that these ships or any other passenger ships can be built within the 1936 act with a little guidance from the Congress.

Mr. MILLER. Of course, we reach that place now, which is going to come first, the chicken or the egg.

We need guidance, but we look for guidance to the Maritime Administration and to the executive branch of government, do we not?

You have to give us some recommendations.

In other words, we are going to put the monkey right back on your back.

Mr. ROTHSCHILD. We are hopeful that our testimony here today will provide some measure of guidance and it may be necessary that we do a little more work on this and come back and talk to you again.

Mr. MILLER. Have you ever given any thought to ships of this character posing a special problem and because of their importance to this country along with being mediums of transportation that we have to give them a little consideration?

Mr. ROTHSCHILD. Mr. Miller, I keep going back to the large fund amount always of the maritime picture.

When the 1936 act was passed there was to all intents and purposes no American merchant marine.

Today we have a very substantial one and one of which the Nation can well be, and is, proud.

It is my judgment that this would not have happened had we not had a 1936 act and I would therefore be reluctant to do very much of anything which would carry with it any possibility that the great good which has come as a result of the 1936 act might be vitiated by some later modification of that act.

Mr. MILLER. I think that you and I are both in agreement that we want to preserve this American merchant marine.

Now, I can remember after World War I our flag was again on the seas and we allowed it to be swept off the seas until around 1936, when this act was passed, it was practically nonexistent.

Then the war came on that changed a lot of things before this act really had a chance to operate.

Is it not true that we are now in the very first phase of replacements under the act and we talk about getting rid of block obsolescence. Is it not this fleet that has made us great and has kept our flag flying and given us some prestige as a result of that act, but are we not just now putting this act to a real test?

Mr. ROTHSCHILD. We are just now achieving the full benefits which were established under that act.

Mr. MILLER. And if we want to go on with this thing and to maintain those benefits, do you not think we have to take a look at this law every once in a while that is now 20 years old to make sure that as the developments take place, we rewrite and take another look at this?

Mr. ROTHSCHILD. Indeed we do.

Mr. MILLER. For instance, I have learned a great deal about the speeds that we are talking about. Twenty-eight and a half knots in the Atlantic and 30.7—I believe those are the speeds.

You certainly would not recommend those speeds in the Pacific, would you?

Mr. ROTHSCHILD. Speeds would vary according to trade routes and according to the way in which those trade routes are being served.

For example, when 28½ knots was determined as the commercial speed it was then done under the basis of that being the speed of the competition, which was then the *Queens*.

Today, with the imminence of a French Line ship at 31 knots and the existence of the *United States* at 30.7 knots, we face a different picture on competition.

Mr. MILLER. What about the Pacific? What was the speed established in the Pacific?

Mr. ROTHSCHILD. The ship proposed by American President Lines is a 26-knot ship and that is a higher speed than any presently existing service transpacific.

Mr. MILLER. In the hearing so far, did we not establish that 23 knots is the speed that was the acceptable speed comparable to 28 knots in the Atlantic and the Pacific.

Mr. MORSE. No; but I think the American President Lines is proposing to build the 26-knot vessel.

Mr. MILLER. It is proposing to build a 26-knot ship just like the United States Lines wants to build a 30-knot ship. But the plateau from which you are speaking, you are accepting the 26 knots and 28½ knots for the United States Line in the Atlantic, and then we talk about this added speed that was put on.

Was not 23 knots the accepted speed?

Mr. ROTHSCHILD. We accepted 28½ knots in the Atlantic 5½ years ago. Conditions have changed since then.

Mr. MILLER. So we go to another plateau, another place where we have to start measuring these things?

Mr. ROTHSCHILD. That is correct.

Mr. MILLER. Can you apply the same reasoning when we say that we are going to make charges, certain charges, we refuse to accept certain conditions over this 28½ knots, you are going to make charges above that, some credit for the additional 30.7?

Mr. ROTHSCHILD. That is Mr. Morse's view and I concur in it, that he has no alternative but to accept 30.7 as of today.

Mr. MILLER. Suppose the United States came in and said they wanted to rebuild, wanted to establish the new ships' speed at 28½. would you accept that proposition?

Mr. ROTHSCHILD. You mean they actually wanted to operate the ship at 28½ knots?

Mr. MILLER. Yes.

Mr. ROTHSCHILD. I would lose a good deal of the great faith I now have in the management discretion of those people who are operating the United States Lines.

Mr. MILLER. So would I; so would this Congress. But I think we do not want to penalize them, we do not want to penalize other people for keeping abreast of the times.

In this financing, are we not going to put an extra burden on them for the things we want and we look upon as desirable?

Mr. ROTHSCHILD. If you are asking, is it possible to amend the 1936 act to make it feasible to build these ships, my answer to that would, of course, be "Yes, it is." I think that a ground can be found which will not only be reasonable from the Government's point of view, but will be acceptable to the operator.

Mr. MILLER. I think that is true, we could amend the act.

The CHAIRMAN. I wish you would enlarge on that a bit. That is what we are trying to find out.

Mr. ROTHSCHILD. I would like to have a day or two more, Mr. Chairman, to do a little more work on this. I think we could come up with something some day next week which would be interesting to you.

The CHAIRMAN. I did not mean to interrupt you, Mr. Miller, but I am glad to hear the Secretary make the statement he just made because we have had testimony here that the ship is absolutely necessary, just as necsessary to this Nation as the aircraft carrier that is being built, and many other ships that are being built to support the national defense.

Responsible testimony has been had from the high officials of the Pentagon that this ship is urgently necessary. So. Mr. Secretary, I am delighted to hear you make the statement that you have.

Now, Mr. Miller, will you proceed?

Mr. MILLER. I would suggest this: I think, in my own thinking, and I commend it to the Secretary, that perhaps he come up and tell us whether it is not desirable in the case of these specialty ships—and these are specialty ships, they are designed for specific routes—you would not, I am sure, try to run the *United States* 30.7 knots across the Pacific.

Mr. ROTHSCHILD. There might at some time be reason to do that.

Mr. MILLER. Could you do it for the sustained time it takes to go across the Pacific? Could you put enough oil in here to keep her going at that speed for that length of time?

Mr. ROTHSCHILD. I would have to defer that to someone with greater knowledge of the technicalities.

Mr. MILLER. How about the experts?

Would it be feasible? Now, if she were being chased by a submarine, that is one thing. But would it be economically feasible?

Mr. MORSE. It would be feasible, but it would not be economically feasible in a commercial operation.

Mr. MILLER. So this ship is designed to run along a certain route and her economic feasibility is based on that route, is that not true?

Mr. ROTHSCHILD. We are talking about the *United States* now?

Mr. MILLER. I am talking about the *United States* now, or her sister ship. She is just built, and is only economically feasible on that route, is that right?

Mr. ROTHSCHILD. Certainly.

Mr. MILLER. So the ships going into the Pacific then pose a different picture. They are just as essential in my mind, but again, the thing I want to point out is that in each one of these cases it takes a specialized ship, economically designed for a certain route.

Mr. ROTHSCHILD. This is true for every ship, whether it is cargo, tanker, or passenger vessel.

Mr. MILLER. It is true of tankers, you send any place in the world? It is true of cargo ships?

Mr. ROTHSCHILD. Yes, to a certain extent, this is true of all kinds of ships.

Mr. MILLER. You do have flexibility and you use flexibility in some of our other ships?

Mr. ROTHSCHILD. For example, it takes a very different type of ship in the tanker field if it is designed to run around the Horn than if it is designed to run through the Suez Canal.

Mr. MILLER. I appreciate that, but you do not tie them as close. You can shift tankers to certain areas of the globe where you could not shift the *United States* or its sister ship?

Mr. ROTHSCHILD. That might be the one exception as of today.

Mr. MILLER. When we get into nuclear power, we will be out of that?

Mr. ROTHSCHILD. I hope they will be traveling across the Pacific in a few years to warrant ships of that size in the Pacific.

Mr. MILLER. Now, another thing I would like to have you talk to is how about Government financing of these ships?

Mr. ROTHSCHILD. Mr. Weeks testified that that route was not closed. That is our position. The Government financing route is not closed. However, as I pointed out in my testimony this morning——

The CHAIRMAN. Did I understand you to say that the Secretary testified?

Mr. ROTHSCHILD. Yes, sir.

The CHAIRMAN. Testified to what—that the Government financing route was not closed; that is to say, was not completely out of our thinking? When was that?

Mr. ROTHSCHILD. I think that is when the matter of mortgage insurance was under consideration, Mr. Chairman.

The CHAIRMAN. He testified before this committee?

Mr. ROTHSCHILD. Yes, sir.

Mr. MILLER. Well, I am very happy to hear that. I did not know that. I think it is very important, and I think it is something we should do because, as I add up, after listening to all these figures, it is possible but we are requiring American businessmen to cut the cloth pretty fine to fit into this picture to build these ships without some assistance.

I said in the beginning the first day of these hearings, and I would like you to give this some thought, too, in comparison, that in order to build up this country, in order to defend the West, we enacted years ago the reclamation laws and the irrigation laws. We go out and reclaim and irrigate land, and on the basis of the contribution tht that land makes to our economy, we lend the money for irrigation purposes tax free, and it has been a solid investment for the United States, for this Government. It built the West.

Now I think if we can do that in that case that we could take a look and at least consider the financing of merchant ships at no cost to the Government. I do not expect them to get their financing tax free, but at least the Government could afford to pass on to them the rates at which it can get money in an effort to get this program underway because we have had the conclusive evidence here as to the necessity for these ships. And if that is going to speed them along, I think we are justified in giving some thought to it and we should thoroughly examine that field, too. I wish you would give us your thinking on that another day. I would not ask you to pull it out here.

Mr. ROTHSCHILD. I will be glad to give you my thought on that right now. The provision of the act as presently written provides for the

loan of money in cases where the Government puts up all of the financing at 3½ percent.

General Franklin in his testimony recognized that that was an inequitable request at this time when the Government is paying more than that for money.

Mr. MILLER. You, yourself, said that it was softening this morning. So maybe we can get it at three and a half.

Mr. ROTHSCHILD. If it is softening to that rate, perhaps we need not do anything about it, but it has not as yet. There is a small differential.

General Franklin again, in his testimony offered on behalf of the United States Lines, offered to pay 3½ percent or the going rate, whichever is higher. The going rate is still higher than 3½ percent and, in my judgment, neither the Congress nor the administration should consider the possibility of loaning any money at less interest than the Government is now paying for the money.

Mr. MILLER. I agree with you there. I said that we pass on to them the Government's position in order to get this money at a cheaper rate. I am not asking you to adopt the theory that we adopted in the irrigation laws. I am just saying that we pass on the cost to the Government, which would be about 2 percent less than these people can get it in the open market.

Mr. ROTHSCHILD. I believe not, sir. There would always be a large and serious field of inequity involved here.

In my statement this morning, I indicated that by 1959 there would be some $600 million worth of shipbuilding mortgages, all of which had been financed under the provisions of title XI of the act and these represented investments by other companies operating under the same rules and regulations as these two which are currently under consideration.

It seems to me it would be highly inequitable to provide any form of financing to 2 out of the 13 or 14 companies that would be substantially more favorable than that already engaged in by those people who have made their investments.

Mr. MILLER. Where special conditions exist, as they are coming in here, and I concede that they exist on other routes, these are not the only ships of this type that we are going to need or should be replaced, and ships that are going to be used as auxiliaries in our defense effort, but where these combinations exist, maybe we ought to examine the whole thing.

There is no question inequities exist, but if we pass special bills it will compound perhaps those inequities. So perhaps 21 years after the act was passed, it is necessary that we take a look at it in that respect. That is why I would like to have your considered opinion in the matter if you are not prepared to give it to me now.

Mr. ROTHSCHILD. We have considered it, Mr. Miller. We do not agree that that is the way in which this financing should be arranged.

Mr. MILLER. I have no further questions.

The CHAIRMAN. Do you consider these ships are not competitive with the existing ships built under the arrangement that has been discussed?

Mr. ROTHSCHILD. They are competitive insofar as their money requirements are concerned, Mr. Chairman. They are not competitive insofar as the service they render as ships.

Mr. MILLER. May I say, Mr. Chairman, that the money that we are going to spend for rockets, the money that we are going to spend for everything else, housing and everything else, is competitive as far as money markets are concerned. Is not that cutting it pretty fine, Mr. Rothschild?

Mr. ROTHSCHILD. I do not think it is, Mr. Miller. I think the question of equity is a very serious one which the committee ought to consider.

Mr. MILLER. I think softening of the market is very serious, too, but let us not try to save the world, make the American merchant marine a whipping boy.

Mr. ROTHSCHILD. I am sure we have no thought of doing that, sir.

The CHAIRMAN. Mr. Mailliard.

Mr. MAILLIARD. Mr. Rothschild, would it be a correct inference from your quoting Secretary Weeks to say that the administration policy to insist on private financing under the 1936 act might be altered in a given instance if it became evident that the ship we want to be built cannot be built under private financing?

Mr. ROTHSCHILD. I do not think I am authorized to make any such statement, Mr. Mailliard. We are not convinced that that situation prevails.

Mr. MAILLIARD. I gathered that, but if you did become convinced that that situation prevails, would you be inclined to recommend that an exemption be made in order to build a ship that is necessary and desirable.

Mr. ROTHSCHILD. I believe that there exists more than one avenue of arrangement by which these ships can be built.

As far as I am concerned, I am vitally interested in seeing both these ships go into service. I am prepared now and would be in the future to lend whatever support I could toward the end that they would be built and put into operation.

Mr. MAILLIARD. Your statement and the Department's report on these bills suggest amendments to them which, if I understand them correctly, makes the bill unnecessary.

Mr. ROTHSCHILD. That may be.

Mr. MAILLIARD. It seems a little odd to me that you would say fine, in going ahead in enacting the bills, but amend them so that they add nothing in the way of statutory authority at all. Why bother to pass them?

Mr. ROTHSCHILD. I do not believe I can answer that, Mr. Mailliard.

Mr. MAILLIARD. Is not that the end result of the amendment you suggest, that you have all the statutory authority you need to do what you are able to do under the bills, under the suggested amendment?

Mr. ROTHSCHILD. We seem to have said that very forcibly in connection with the APL ship. There may be a measure of less force in connection with our comments on the *America* replacement.

Mr. MAILLIARD. On the APL proposal, with the exception of their suggestion that we lift the 50-percent limitation, there is no change in the present law. It is a question of change in policy?

Mr. ROTHSCHILD. That is correct.

Mr. MILLIARD. But you object to the bills proposing a successor to the *America* on the ground that a specific price is named and if we follow your suggestions, we still have the 1936 act just the same.

Mr. ROTHSCHILD. My testimony this morning was directed toward the idea that the ship should be built under the framework of the 1936 act, with as little modification as possible.

Mr. MAILLIARD. I do not find anything about modification in the written statement.

Mr. ROTHSCHILD. What bothers so many of us, Mr. Mailliard, is the fact that what we have in the way of a Merchant Marine exists because of the 1936 act. If we find it easy to make exceptions to the act because a certain case is a special case, it is not so difficult to make subsequent cases special cases, and if enough special cases come up, then we may have washed out the 1936 act by inadvertence, perhaps.

Mr. MAILLIARD. You mean if it takes a new bill every time one wants to build a new ship, one might have a bill?

Mr. ROTHSCHILD. That is right.

The benefits accruing under the 1936 act are much more substantial and are of longer lasting duration than the determination of the initial cost of a ship, that I would think the committee would have great reluctance to do anything which would tend to weaken the obvious accomplishments which have come about under the act.

Mr. MAILLIARD. Do you have any personal reaction to APL's suggestion that we should lift the 50-percent limitation?

Mr. ROTHSCHILD. I see no requirement for it at this time.

Mr. MAILLIARD. They indicated they were not sure whether there would be a requirement for it or not. They felt there might be. If such a requirement developed, do you think we ought to consider it?

Mr. ROTHSCHILD. I think we should always be cognizant of the fact that we live in a rapidly changing world and we have to accommodate the rules under which we live to the time in which we live.

Mr. MAILLIARD. Would it be your feeling that if we come to the conclusion that the differential is approaching 50 percent—and by approaching I mean 49.9, not 47—then would it not be better to change the act than to pass a special bill for a special case?

Mr. ROTHSCHILD. I would think so.

Mr. MAILLIARD. I think that is all I have, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

Mr. PELLY. Mr. Secretary, you referred, I think, in your testimony this morning to the statement of General Franklin that their earnings on the steamship *United States* had been calculated, so far as his testimony was concerned, on borrowed as well as their own invested capital.

Mr. ROTHSCHILD. That is the way I read his statement; yes, sir.

Mr. PELLY. Do you recall the percentage that was in his testimony?

Mr. ROTHSCHILD. At the bottom of page 2 of General Franklin's statement, at least the copy I have of it, reads this way:

> The financial results of the *United States* over a 5½-year period of operation, from July 1952 to December 1957, show an average net profit of $1,314,000 per annum, which is 3.76 percent of the cost of the vessel to the United States Lines. I consider that a very small return.

Mr. PELLY. That is the reference I have. I wonder if you could give us, according to the invested capital, the basis that the Maritime Board uses to determine what the return was?

Mr. ROTHSCHILD. Mr. Morse is going to testify on that, Mr. Pelly. Would you like to have those figures now?

Mr. MORSE. They are making 10 percent on their capital investment on the steamship *United States*.

Mr. PELLY. You are Secretary; I would like to have your views as a businessman, too, as to whether or not when you are figuring return on your money, do you figure it on the basis of the amount of money you borrow plus your own capital normally, or what is the usual practice?

Mr. ROTHSCHILD. I think corporate practice generally, Mr. Pelly, confines its statement of earnings to invested capital.

Mr. PELLY. In other words, the common stock and the surplus, undivided profit, but not the outstanding mortgages and loans?

Mr. ROTHSCHILD. I believe that is right, sir.

Mr. PELLY. I wonder if you could give me the estimated return, according to the Maritime Board, that the new superliner passenger vessel would make instead of the 1.77 figure that General Franklin estimated?

Mr. MORSE. We have all sets of figures, Mr. Pelly.

On the *America* replacement at a $47 million cost and assuming 3½ percent interest rate, the return would be 4.21 on the capital necessary.

Mr. PELLY. That is not a very high return on money considering the risks involved and the contingencies for losses. I would feel that you could well testify that it was a very, very modest return to the operators.

On another point, Mr. Secretary, you indicated this morning that possibly by legislation in setting the commercial speed of the new superliner at 28½ knots, that it would relieve the Federal Maritime Board from having to use as high a figure as the 30.7 knots which the General Accounting had informally insisted on.

Mr. ROTHSCHILD. I believe that was Mr. Morse's statement, not mine, Mr. Pelly.

Mr. PELLY. If legislation were passed that there also would have to be provision whereby the operator would not have to refund any of the Government payment if it ran at a higher operating speed because obviously it is going to operate at 30.7 to make a proper turnaround with the steamship *United States*.

Mr. ROTHSCHILD. I believe every contract we have has a speed clause in it which says that if a vessel is capable of achieving a higher speed, and if that higher speed is used, then the operator shall reimburse the Government for that share of the used speed.

Mr. PELLY. It is not as simple then as just stating that the formula you use would be 28½ knots for commercial speed. You have to go one step further and state in that connection there will be no refund on anything that has average speeds over 30.7. Is that not correct?

Mr. MORSE. We have not charged the United States Line for utilization of speed in excess of 28½ knots.

Mr. PELLY. Have you been doing that in accordance with the contract that requires it?

The Secretary just indicated that every contract you have has that in.

Mr. ROTHSCHILD. We sold a number of Mariners as 18-knot vessels which are being run at higher speeds than that. In those cases, the operators are being charged for the utilization of that portion of the higher speed which they are using.

Mr. PELLY. Apparently, this is an exception, because I had understood, also, that the operators, if they exceeded the normal speed, would pay back any of the defense features that they have not paid for if they utilized them. But, apparently, that is not true. Is that permissible under the existing Merchant Marine Act?

Mr. MORSE. Let us say, under our contract for the sale of the steamship *United States*, there was no speed-recapture clause included in the contract, so we have no basis of charging the United States Lines for the utilization of the excess speed. When we sold Mariners as 19-knot ships, we did include a speed-recapture clause in those contracts.

Mr. PELLY. If this transaction was as recommended by the report, and it did not provide for a sale at a specific price, $47 million, and, instead, if by law it was established that the normal speed of 28½ knots should be used in setting defense-features payment by the Government, would it be necessary, also, then, to waive any payments for average speed in excess of the 28½ knots?

Mr. MORSE. I would say yes.

Mr. PELLY. That is all, Mr. Chairman.

Mr. MAILLIARD. Mr. Chairman, could I ask one more question?

The CHAIRMAN. Yes.

Mr. MAILLIARD. When you refer to selling the Mariner as an 18-knot ship or the *Queen* as a 28½-knot ship, just exactly what do you mean? Do you mean that that is their average normal operating speed, or does that mean that they do not go any faster than that?

Mr. MORSE. We priced out the vessels as being the foreign-builder cost of 18 knots equivalent. We sold the Mariner to operate at 18 knots. If the operator desired or did use the additional speed that was built into the vessel, then we charged them for the use of that additional speed.

Mr. MAILLIARD. If they go 18½ knots for a few hours, do you charge them?

Mr. MORSE. When we first started selling the Mariners, it was done on a promotional basis, and we gave a very favorable speed clause. We would charge them only on the voyages where they averaged in excess of 18 knots for the transit time, and then only for the days at sea, not with reference to 365 days in the year.

Later on, we put on a more burdensome clause, so that it was related to the 365 days in the year rather than merely the days at sea. Then, when we found that the owners were interested in buying these vessels, we sold them only as 20-knot vessels, and they could use them at whatever speed they wished to use them.

Mr. MAILLIARD. Some of them make a good deal more than 20 knots?

Mr. MORSE. Their designed service speed is 20 knots.

Mr. MAILLIARD. That is what I wanted to get at. You say the *Queens* are 28½-knot ships. They can make more than 28½ knots, and do; is that correct?

Mr. MORSE. I do not think the *Queens* make much more than 28½ knots.

Mr. MAILLIARD. The *Queen Elizabeth* did, on her record run. It was nearer to 31, as I recall.

Mr. MORSE. 31.69 in 1938 for the *Queen Mary*.

Mr. MAILLIARD. That somewhat confuses me. You talk about a 28½-knot ship, when it can apparently make 31 knots.

Mr. MORSE. That would be at maximum power, I would assume.

Mr. MAILLIARD. But, if you built a 28½-knot ship, theoretically, it seems to me, there is some evidence to indicate it could go 30.7.

Mr. MORSE. Under our speed formula, we have a built-in capacity for a speed in excess of 28½ knots, so that the vessel can operate at 28½ knots under most every sea condition.

Mr. MAILLIARD. But, had the *United States* been built at the theoretical sustained speed capability at 28½ knots, it would not have been able to operate at the 30.7 that it has operated at?

Mr. MORSE. No, sir; not continuously.

Mr. MAILLIARD. It has also been testified to in the past, I think, that, both in the case of the *United States* and in the case of the Mariners, they were actually able to maintain sustained speeds considerably in excess of that for which they were theoretically designed.

Mr. ROTHSCHILD. I wonder if this is not in about the same field as any other piece of machinery. An automobile or an airplane has a capability of a higher speed for a limited time, but, like any other piece of machinery, if you run it to its full limit all the time, you have cut down its operating life.

Mr. MAILLIARD. Neither of us is an engineer, so I do not know whether that is true in the case of ship, necessarily, because Mr. Gibbs designs such good ships they always seem to make better speed than that for which they were designed. I am wondering if it is not correct that the 28½-knot ship, theoretically, could maintain the schedule at a speed in excess of that, based on the actual experience of the *United States* and with the Mariners.

Mr. ROTHSCHILD. As I understand it, speed is computed on the basis of utilizing 80 percent of available shaft horsepower on a continuing basis.

Mr. HOFFMAN. That is the speed during the trials only. In service, the winds and the tides, current, the condition of the bottom enter into it. I am saying that in service a ship gets a fouled bottom, adverse winds and weather, and it slows it down.

If we are talking about an 18-knot service speed, it is the speed the ship will average over the normal life at a full draft.

Mr. MAILLIARD. In the case of the Mariner, Mr. Morse says they are a designed 20-knot ship. Is it not true that some of them have operated at sustained speeds considerably in excess of that, under all weather conditions?

Mr. MORSE. At full draft, I do not think so.

Mr. MAILLIARD. Do you know that they have not?

Mr. MORSE. Mr. Hoffman tells me, at full load, calm sea conditions, at maximum power, they will operate in excess of 20 knots, but, at 80 percent, which is our standard formula, they will not operate in excess of 20 knots sustained speed.

The CHAIRMAN. Mr. Gross.

Mr. GROSS. Mr. Morse, I am not quite clear; is there any mandatory provision in law, any law, requiring you to enter into a contract in which speed is a factor?

Mr. MORSE. No, sir.

Mr. GROSS. That is discretionary with you?

Mr. MORSE. We are obligated to fix the construction-differential subsidy, based on the commercial ship.

Mr. GROSS. I am talking about this reimbursable feature, based upon the factor of speed used.

Mr. MORSE. No; there is not.

Mr. GROSS. Is there a mandatory provision in law that you must enter into a contract?

Mr. MORSE. No; there is not, but we are required to exercise sound business judgment, and it is not sound business judgment for us to sell a 20-knot ship at an 18-knot price.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. Mr. Rothschild, you talk about the commercial speed of ships. How do you determine what a commercial speed is, or should be, for a ship like the *United States* running over a certain course?

Mr. ROTHSCHILD. In the case of the 30.7-knot figure, Mr. Tollefson, that was determined by actual experience. That is the speed at which the *United States* has been operated during her life.

Mr. TOLLEFSON. Did you fix the commercial speed at the time of the orginal contract?

Mr. ROTHSCHILD. Yes, sir; at 28 knots because that was the speed at which the *Queens* were operated.

Mr. TOLLEFSON. That is what I am getting at. The competition is a factor to be considered in determining what commercial speed is?

Mr. ROTHSCHILD. Yes, sir.

Mr. TOLLEFSON. Then if you determine what a commercial speed should be in the Pacific rather than in the Atlantic, you take into consideration the competition which confronts the ship?

Mr. ROTHSCHILD. Existing and contemplating competition.

Mr. TOLLEFSON. What I am getting at is this: Could you justify a commercial speed of say, just picking a figure, 28 knots in the Atlantic and at the same time, picking a speed, 26 knots for the Pacific.

Mr. ROTHSCHILD. I think each service would have some differentials.

Mr. TOLLEFSON. You could justify it on that basis?

Mr. ROTHSCHILD. Yes, sir.

Mr. TOLLEFSON. There has been considerable comment about the administration policy with respect to private financing. I appreciate the fact that at one point the administration suggested private financing. At the same time I appreciate what has transpired over the years.

Would it be a fair question to ask why the administration adopted a policy of private financing?

Mr. ROTHSCHILD. I think a review of our testimony which was given in connection with the passage of that legislation would indicate that first of all, we thought that this was a field of Government operation that should properly be one of private operation, that there was no reason why the Government should be a banker when there were plenty of private bankers around whose business it was to furnish money for such undertakings.

Mr. TOLLEFSON. Were there any other factors?

Mr. ROTHSCHILD. Yes, sir; there is a budgetary factor, also.

Mr. TOLLEFSON. Going a step beyond the budget, was there still another factor?

Mr. ROTHSCHILD. At the moment, there is a debt-limit factor.

Mr. TOLLEFSON. Let me ask the question more specifically. Was the experience of the Department of Commerce in obtaining funds from Congress a factor?

Mr. ROTHSCHILD. Yes, sir; it always is a factor.

Mr. TOLLEFSON. I was here when we passed that bill and I supported it and largely because of the difficulty we had always experienced in getting Congress, as a whole, to appropriate such funds to support section 502 (c).

Mr. ROTHSCHILD. That is a very pertinent point right now, Mr. Tollefson, because, as I indicated earlier, today our 1959 submission includes an item of $160 million for ship construction which, by the way, provides for the APL ship. If we were to add to that enough money to pay the Government's share of the cost of the *America* replacement, I will leave it to your judgment as to how much greater or lesser chance we would have to getting that money appropriated.

Mr. TOLLEFSON. In other words, instead of asking for $160 million you would be asking for about $235 million?

Mr. ROTHSCHILD. Yes, sir.

Mr. TOLLEFSON. I hope you will agree with me when I said the other day in a sense the private financing was a congressional policy, too, not only because it adopted the law, but because many of the members of this committee felt that we had a difficult time getting Congress to see that the money we appropriated for section 502 (c) was not an appropriation that was to be expended, but were appropriations that were to be used for loaning purposes and came back to the Government at 3½ percent.

Mr. ROTHSCHILD. I am sure most people would agree that had we had to finance all of the shipbuilding, which is currently underway and almost under contract as of today by direct Government appropriation, we would have had many fewer ships built than we have been able to accomplish by means of private financing.

Mr. TOLLEFSON. I remember very well when this private financing bill passed the House of Representatives. It was made abundantly clear, largely through the statements of our former colleague, Mr. Shelley, and our colleague, Mr. Allen, that we were not abandoning section 502 (c).

Mr. ROTHSCHILD. That is correct, and Mr. Weeks testified to that, too, Mr. Tollefson.

Mr. TOLLEFSON. I am happy to hear that the Secretary of Commerce is willing to consider that as a source of financing, as a possibility of financing in the event it is necessary to do so.

Mr. ROTHSCHILD. However, we are not now recommending it. I must make that very clear.

Mr. TOLLEFSON. Now, I have two other matters. This matter of the operator using speeds in excess of the figure designated as the speed of the ship. As I understand your testimony, now, in connection with the tankers, if they use a speed in excess of the commercial speed, they pay for it or pay something for it?

Mr. ROTHSCHILD. In the case of the Mariners, and those which were sold as 18-knot vessels, if any part of that excess speed is used, they do pay for it.

Mr. MORSE. May I interrupt there? When Standard Oil of New Jersey built 2 tankers under the tanker trade-in and build legislation, they proposed to build 2 tankers at approximately 16½ speed.

That was their commercial requirement. With a little prodding we encouraged them to build 18.3-knot tankers which they agreed to do. We checked out with the General Accounting Office and satisfied not only ourselves but the Accounting Office, that the additional speed was a burden to the Standard Oil Co. so that when they used their tankers at the 18-knot speed no charge was made to them for the excess speed that was used in the vessels. It was a detriment to them, rather than an advantage to them.

Mr. TOLLEFSON. This point was discussed in this committee at the time we were considering that trade-in and build tanker bill.

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. And there was some suggestion from the committee that where the operator used the excess speed, he should be charged for it.

Mr. MORSE. That is correct.

Mr. TOLLEFSON. I would like to get a little more information on this matter of capital necessarily employed. The testimony on the part of the United States Lines was that they would anticipate a return, I have forgotten what the figures were; in one instance it was less than 2 percent.

Now, that return was based on the amount of cash that they would invest plus the amount of money that they would borrow from the Government.

Mr. ROTHSCHILD. Or from wherever they borrowed it.

Mr. TOLLEFSON. Is that not true?

Mr. MORSE. Yes, sir; I think that was on the basis of private financing, including their financing costs, were with interest at 4¼, 4½ percent in addition to the mortgage-insurance premium and the commitment fees.

Mr. TOLLEFSON. Do I understand that you have taken their figures and come up with your own estimates as to what their return would be, using as a base only the cash that they invested?

Mr. MORSE. We have computed it on the basis of 3½ percent Government financing. We have computed it on the basis of 5 percent financing. We have also computed it on the basis of 5 percent aggregate plus mortgage insurance plus their commitment fees and financing costs.

Mr. TOLLEFSON. Using the figures that you used, what was the highest return that they could anticipate?

Mr. MORSE. I said earlier a figure of 4.21 but actually, and assuming the same utilization of passenger space, the nonlayup of the vessel by reason of strikes, the *America* replacement costing $47 million with Government financing at 3½ percent interest, their profit would be 6.1 percent after taxes and after subsidy.

If they paid 5 percent interest rate, their return would be 4.92 percent. I do not have a column here for the situation which includes the financing cost, which would be in the neighborhood of $41½ million for a ship costing $56 million, but that would reduce this return about three-fourths of a percent.

Mr. ROTHSCHILD. These figures apply only to the new vessel, Mr. Tollefson. If the earnings of the new vessel are combined with the earnings of the *United States*, then the return goes up.

Mr. MORSE. Let us put it the other way around.

The steamship *United States* is earning 10 percent on its capital necessarily employed if it operated the line without the *America*. If they operated only a single ship and, assuming that they would continue to have the same occupancy their return would be in the neighborhood of 150 or $200,000 less per year than it is operating the *United States* and the *America* combined.

Mr. TOLLEFSON. I would like very much to see both these proposed vessels constructed, and I hope very sincerely that some means can be found whereby they both can be built.

Mr. MORSE. To complete these figures, assuming the operation of the 2 vessels combined, the *United States* and the *America* replacement, at 3½ percent, Government financing, the combined operation would be 8.47 percent on their capital necessarily employed.

With private financing at a regular rate of 5 percent the return would be 7.56 percent and then if you include the financing costs which are in the neighborhood of 4¼ to 4½ million dollars, that would be reduced by three-fourths of a percent.

So, on that basis they would be earning about 6¾ percent after taxes and after subsidy.

Mr. MAILLIARD. Mr. Morse, is the figure that you gave on the *United States* of 10 percent on that ship alone or is that the combined figure with the *America*?

Mr. MORSE. It is within a fraction of 10 percent with the 2 ships in operation. The *America* loses about $250,000 a year. It is 7.73 percent for the combined operation.

Mr. ROTHSCHILD. Ten percent alone.

Mr. MAILLARD. Of course, the *America* capital cost is pretty low right now, is it not?

Mr. MORSE. Quite low.

Mr. MILLER. Mr. Chairman, are those figures going to be put in the record?

The CHAIRMAN. Well, they have been taken down.

Mr. MILLER. There is a breakdown of them, one thing or another.

The CHAIRMAN. I think Mr. Morse is going to testify.

Mr. MILLER. Could we have them in the record?

The CHAIRMAN. Yes; I imagine he will put them in the record.

Mr. TOLLEFSON. I did not mean to anticipate his testimony. I merely had these questions in mind and I wanted to ask them now. Coming back to what I have said, I would hope that some means can be found so that both of these ships can be constructed. In the years I have been a member of this committee, I have seen Maritime Administration and the Commission preceding, be subjected to various kinds of criticism, depending on which way the wind was blowing. I have seen those people criticized because they were not leaning far enough backward to protect the interest of the Government and necessarily the interest of the taxpayers. I have seen them criticized for not leaning far enough the other way for the benefit of the operators and the people in the maritime industry.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Morse, how do General Franklin's figures and your figures differ?

Mr. MORSE. They do not substantially differ. He approaches it from the return on the aggregate cost of the ship plus the capital employed in operating the ship. We approach it solely from the capital necessarily employed provided under the 1936 act.

So we talk about his equity in a ship plus the dollars required for his operating cost.

The CHAIRMAN. Do I understand that he figures his return on what the Government has put into the ship?

Mr. MORSE. No; he figures his cost on what would be the commercial equivalent cost. If it is a $90 million commercial ship at 28½ knots, he figures it on that basis. I am in error. I am sorry. He figures it on the $47 million investment in the ship.

The CHAIRMAN. That is what I was wanting to get to. His figures are based on the $47 million?

Mr. MORSE. Yes, sir.

Mr. ROTHSCHILD. Not on how much money he actually has in the ship at that time.

The CHAIRMAN. Your figures are based on what?

Mr. MORSE. His downpayment plus the 3 or 4 million dollars required to operate a going venture, which is capital necessarily employed under the statute.

The CHAIRMAN. He has to pay the whole thing?

Mr. MORSE. Yes.

The CHAIRMAN. So he eventually is right in his figures then?

Mr. MORSE. Yes and no. He has no liability. He can default on the purchase of his ship and all that he stands to lose is his equity in the ship.

The CHAIRMAN. That is a pretty substantial amount.

Mr. MORSE. Certainly, but it is not $47 million.

The CHAIRMAN. It is not $47 million?

Mr. MORSE. No, sir; it is his downpayment. That is all he stands to lose. We are figuring our return on the basis set up under the 1936 act, which we are required to do.

The CHAIRMAN. Now I know that Mr. Shelley is very much interested in this matter.

Mr. Shelley, are there any questions you would like to ask the Secretary?

Mr. SHELLEY. Not at this point, Mr. Chairman. Thank you very much. The information is very enlightening and will be a source of questions in the appropriate hearings.

The CHAIRMAN. The counsel for the committee would like to ask some questions.

Mr. DREWRY. Mr. Rothschild, before the noon recess when the subject of General Franklin's $47 million figure was brought up, you suggested that that was not enough and that you thought more could be gotten.

Do you have in mind that there should be some further negotiations on this subject?

Mr. ROTHSCHILD. I would take it, Mr. Counsel, that it would be an absolute necessity to have some further negotiations unless this bill passed precisely as written.

Mr. DREWRY. In that event, when you move into the realm of horse trading, are you not putting yourself into a rather inconsistent position in view of your strong statements in favor of applying the 1936 act as is?

I mean if you apply the formula, then you are not negotiating, theoretically?

Mr. ROTHSCHILD. I think the answer to that is probably yes and no. Each one of these contracts has been arrived at by a consideration of the various factors brought up by the operator and by the Government and interpretation of various matters.

It is not one of these slide-rule operations like we saw this morning. It takes a little more than that.

Mr. DREWRY. Your answer is yes and no.

Mr. ROTHSCHILD. Yes.

Mr. MORSE. May I answer that one. Speaking for a board member, we follow the law. We determine what the foreign shipbuilding cost is. If the operator can buy the ship, okay. If he cannot, too bad. We do not negotiate with the operator on what price the foreign building cost is going to be.

Mr. TOLLEFSON. Is the foreign building cost a matter that is easily determined?

Mr. MORSE. It is very difficult to determine.

Mr. TOLLEFSON. I have one other thing. What about the defense feature costs, are they easy to determine?

Mr. MORSE. That, of course, is difficult. We do it in conjunction with the Navy Department.

Mr. TOLLEFSON. Do the operators challenge your figures with respect to foreign costs and with respect to defense features cost?

Mr. MORSE. Very vigorously.

Mr. ROTHSCHILD. It is at that point that some give and take takes place.

Mr. MORSE. No, sir. I beg your pardon. We do not do any give and take on that point.

Mr. DREWRY. Mr. Rothschild, you have said that you understood that in the history of private financing that it was the intent of Congress and the understanding of the Department, Mr. Weeks so testified himself, that private financing was not to be to the exclusion of Government financing which, if you are worried about precedents, has been a precedent since the 1936 act.

You said that you are not prepared to consider it in this case. Could you give us some indication as to when you might consider it, just what type of situation might arise?

Mr. ROTHSCHILD. I will answer that by saying that up to now we have not seen one, Mr. Drewry.

Mr. DREWRY. On page 5 of your statement, you said—

The specified sales price of $47 million could be less than the portion of the cost of the vessel which should be borne by the purchaser under the provisions of the act.

You then say—

It would be unfortunate under such circumstances to set a precedent for a specified statutory determination in law of the administrative determined and computation of the subsidy and defense features as provided in the 1936 act.

Why would it be so unfortunate in this particular case?

Mr. ROTHSCHILD. Because of the precedent-setting possibilities.

Mr. DREWRY. Let me pick it up from there.

At the time that the 1936 act was enacted, the United States of America had no policy with regard to superliners at that time. Combination vessels were as far as they had gone. The act was tailored around a situation at that time for a program of additions and replacement.

In section 212 of the original act, the Commission was authorized and directed to study and cooperate with vessel operators in devising means by which there may be constructed by or with the aid of the United States express liners or superliner vessels comparable with those of other nations, especially with a view to this use in national emergency.

Now, that suggests to me that there is no precedent in the law, there is no provision in the law for this type of vessel. So I cannot see why we would worry about establishing a precedent since it might be the first time we have really comes to grips with the problem.

Have you given any thought to the possibility that this law was not tailored to meet this problem?

Mr. ROTHSCHILD. It is evident by the several amendments made to the act since its original enactment, Mr. Drewry, that both the Congress and the various administrations have given consideration to its inability to meet conditions as they change.

My personal concern is with making changes of such latitude as to adversely affect the great good that the Nation has had out of the act as modestly amended in the past.

Mr. DREWRY. In the modest amendments recognition has been given to the unique character of superliners and we still had trouble.

Mr. ROTHSCHILD. It seems to me it would not be too much of a step to go from superliner thinking to supertanker cargo carrier and pretty soon, everything is super.

Mr. DREWRY. Well, in exceptional cases they might be handled that way.

In considering the economics of the vessel operation as brought out by General Franklin which he based on the operation of the steamship *United States* for the past 5 years, which certainly has been a period of time which you could hardly hope to have been better as far as general business is concerned, he has advised the committee that a fixed figure, and he named $47 million, was the maximum that he could pay for the ship or contribute to the cost of the ship and yet have any hope of an economic return.

What would you think of the figures which he has presented and your own calculations being turned over to the Comptroller General for analysis, for careful study and auditing of the known figures which are available so easily to the Government, because of the nature of the operation and have them advise the committee as to just what a proper answer on this economic aspect of it should be?

Mr. ROTHSCHILD. I would think that would be a pretty good idea.

Mr. DREWRY. The important issue, really, is the building of the ship. We can talk about private financing all you want to, but if it does not build the ship then it has not accomplished anything; it has not even subsidized the bankers.

If private financing will work, then it is fine. You cannot get away from the sensibleness of General Franklin's point, that this is

the point beyond which he cannot go. Now, we expect the ship to be operated at 30.7 knots. It has been testified that anything less than that would be unthinkable in view of what has been established by the *United States*. So I do not think that would be too bad an approach.

Mr. ROTHSCHILD. No, but at the same time, it might be well to ask the General Accounting Office to take into consideration a statement made in Mr. George Killion's testimony.

As I recall, the reading went something like this. While the return from a passenger vessel was an uncertain sort of thing, after all they were in the shipping business and in that business to render an all-round service and that in addition to the fact that the cargo vessels probably made a greater return than the passenger vessels, that there was a certain intangible but substantial contribution made toward their cargo-carrying business by reason of the fact that they were in the passenger business.

You might ask the General Accounting Office to put a number on that.

Mr. DREWRY. I certainly think that is a factor. At least it has always been so presented, that passenger vessel services in many cases is a useful supplement, even a business gatherer for the freight service.

Now, on this subject of the 50 percent barrier that was mentioned in the APL testimony, maybe this question has already been asked. Is the trend in that direction very close at this point?

Is the trend very close to going beyond 50 percent differential?

Mr. MORSE. The tentative views of the staff, which have not been reviewed by the board yet, are 47 percent for the *America* replacement. That is higher than what we have approved for any previous vessel.

Mr. DREWRY. If it should get closer, what would you propose to suggest that we do about it?

Mr. MORSE. I would have very serious hesitation about asking that the 50 percent ceiling be raised. My personal view is that we would run into serious difficulties in the Congress.

Mr. DREWRY. I have just one more question.

Mr. Rothschild, in this letter from Mr. Weeks, where there is a discussion of building the ship at an appropriate time and then it says, as Mr. Mailliard brought out, that it would be all right to have special legislation so long as it does not do anything, and so long as it would not be construed as conferring a priority for appropriation without regard to other scheduled ship construction.

That latter point I wish you would elaborate a little more. I did not understand your reply.

Mr. ROTHSCHILD. That is repeating a message to your committee from the Bureau of the Budget or at least repeating the substance of that Bureau of the Budget message to you.

As I understand, Mr. Drewry, that means we would not like to see these passenger vessels receive appropriations of money which would stop the orderly replacement of our balance of our fleet.

Mr. DREWRY. How would it do that? That is what I do not quite understand.

Mr. ROTHSCHILD. Mr. Shelly is gone now, but it might be possible that the Appropriations Committee would do such a thing.

Mr. DREWRY. Build this ship in lieu of giving you money for what you have already——

Mr. ROTHSCHILD. For example, we are asking for $160 million this year. They might say, "O. K., you can have $160 million, but you must apply it to certain ships." It has been done in the past.

Mr. DREWRY. If this legislation were to be enacted, what would be your thought as to whether the administration would ask for funds for its construction?

Mr. ROTHSCHILD. I do not think we are that far down the road yet, Mr. Drewry.

Mr. DREWRY. At the very end of the letter it says:

Of the legislation requiring Federal finnacing as proposed by 9324 it would not be in accord with the program of the President.

That term, "program of the President," intrigues me in this connection. What does it mean?

Mr. ROTHSCHILD. Would you point out that question?

Mr. DREWRY. The last sentence, the last few words in the report on the bill that is not in accord with the program of the President.

Mr. ROTHSCHILD. In this copy it reads:

The enactment of legislation requiring Federal financing of the ship mortgage as proposed by H. R. 9342 would not be in accord with the program of the President.

Is that the line to which you have reference?

Mr. DREWRY. Yes.

Mr. ROTHSCHILD. I think that is quite clear. The administration is not now supporting that part of H. R. 9342 which goes to Government financing of the whole cost of the owners' share of the vessel.

Mr. DREWRY. And is, therefore, not supporting that part of the Merchant Marine Act of 1936?

Mr. ROTHSCHILD. That is correct.

Mr. DREWRY. That is all, Mr. Chairman.

Mr. ALLEN. Mr. Rothschild, you said once or twice that the money for the American President Lines ship is in the budget request. Is that limited to the Government subsidy portion of the money or does it include also the money for the financing of the loan?

Mr. ROTHSCHILD. No, sir; it does not. It includes the Government's share, it includes the Government's participation in construction subsidy and the payment in full for that defense features.

Mr. ALLEN. If the bill passed, in order to implement it, there would have to be an additional sum for the financing of the mortgage?

Mr. ROTHSCHILD. That requires no money from the Government.

Mr. ALLEN. I think the bill requires Government financing.

Mr. ROTHSCHILD. The appropriation measure?

Mr. ALLEN. No; the bill before this committee.

Mr. ROTHSCHILD. Yes, sir; and we are not supporting that.

Mr. ALLEN. The money is not there for that.

Mr. ROTHSCHILD. Nor are we supporting the principal.

Mr. ALLEN. Thank you.

The CHAIRMAN. Mr. Miller?

Mr. MILLER. I wanted to ask Mr. Rothschild, have you any idea what Japan is doing in the line of passenger ships?

Mr. ROTHSCHILD. Just vaguely, Mr. Miller. I believe that for 4 or 5 years in succession now, there has been a proposal before the Japanese Diet to build a vessel and I do not believe it has ever had favorable action.

Mr. MILLER. Do you think, using the usual tactics they have used in the past, that their spots had not changed, that they are laying back until the appropriate time when they can get in this thing?

Mr. ROTHSCHILD. The business of operating steamships has always been a competitive business, Mr. Miller.

Mr. MILLER. I think you say "Yes" to that and I am very glad. I rather sensed that it has. I was just wondering what they were doing, whether you knew or not.

Mr. ROTHSCHILD. That is as much as I know about it. Now perhaps someone else will have further knowledge.

Mr. MILLER. That is all.

The CHAIRMAN. Thank you very much, Mr. Rothschild. It might be possible that after you think the matter over that we will have you and Mr. Weeks down here next week.

Mr. ROTHSCHILD. Thank you, sir. As always, it is a pleasure to appear before you, sir, and one of my more enjoyable duties.

The CHAIRMAN. Thank you very much. We appreciate your coming.

Mr. MORSE. Mr. Chairman, I have a prepared statement.

In addition to myself, there is Mr. Ben Guill, or he was here until 15 minutes ago. He had an appointment with Mr. Nixon that he had to make.

Mr. Tom Staken is here. Both members of our—I will say without fear of qualification—very fine board.

We are very much interested in getting these two passenger ships. We have been wandering over the lot considerably and I was not going to speak from the prepared statement, but I think in order to get a little consistency in my thinking——

The CHAIRMAN. Let me ask you one question so that we will not waste your time or our time.

In the light of what the Secretary has said that there would be further consideration given this matter at the secretarial level, do you think it would be better to proceed now, or wait until that time.

Mr. MORSE. I think it would be desirable to proceed now so that the committee will be fully informed what the financial picture is.

The CHAIRMAN. All right, sir.

Mr. ALLEN. Mr. Chairman, may I ask one question?

The CHAIRMAN. Yes.

Mr. ALLEN. Mr. Morse, I notice your statement is that of the Chairman of the Maritime Board which leads me to ask the question whether you, as the Maritime Administrator and in the Department of Commerce sometime have views to express of the Department which are not necessarily the views of the Board?

Mr. MORSE. You are asking me an embarrassing question. The answer is "Yes."

Mr. ALLEN. These views are the views of the Board speaking through you?

Mr. MORSE. You will see after my name it shows Chairman, Federal Maritime Board, Maritime Administrator.

Mr. ALLEN. Which hat do you have on?

Mr. MORSE. I have both of them today.

As Maritime Administrator I am in the Department of Commerce.

As Chairman of the Federal Maritime Board, I am a member of an agency of a quasi-judicial nature which is an arm of the Congress.

Mr. ALLEN. Thank you.

Mr. MORSE. Gentlemen, Mr. Louis S. Rothschild, Under Secretary of Commerce for Transportation has testified on the basic issues involved in the bills under consideration and the policy view of the Department relating thereto.

My statement will deal at some length with the historical and factual background.

I will first take up the proposal to replace the steamship *America* with a ship equivalent to the steamship *United States*.

NEED FOR REPLACEMENT OF STEAMSHIP "AMERICA"

The *America*, built in 1940, was unable to enter the service for which she was built before entering war service as a troop carrier.

Following World War II, the *America* entered commercial service carrying passengers between New York and the following ports: Cobh, Ireland; Le Havre, France; Southampton, England; and Bremerhaven, Germany.

The statutory 20-year life of the *America*, beyond which time no operating differential can be paid except upon special findings made by the Federal Maritime Board as provided in the Merchant Marine Act, 1936, expires in 1960.

United States Lines Co. under the terms of its operating differential subsidy agreement, if subsidy is to be continued beyond August 1, 1958, is required to make a formal commitment by that time for the replacement of the *America* with new construction.

Without regard to requirements that commitments be made this year for the replacement of the *America*, it has been evident for some time that from the standpoint of economic operation the *America* is inadequate for the North Atlantic express service.

The essential United States trade routes served by the steamship *America* and steamship *United States* are the most heavily traveled of all the ocean routes, and in recent years have accounted for the majority of all passengers carried in passenger combination ships on all United States foreign-trade routes.

Transatlantic travel between the United States and Western Europe now totals more than 1 million passengers annually, and more than one-half million travel by sea. The growth in magnitude of North Atlantic travel can be realized when it is considered that the airlines in this trade during the past several years have carried about an equal number of passengers.

While air travel has increased greatly during the past decade, it should not be overlooked that during the past 10 years transatlantic travel by sea has doubled.

There is some indication that the growth of sea travel has been retarded by the limited number of accommodations available.

Recent studies made of transatlantic travel indicate a further growth pattern. A projected United States population growth from the present 170 million to 200 million by 1970 provides a broader base for economic growth of all kinds.

Moreover, there is a steady increase in the proportion of the population consisting of older and better educated persons, or persons in professional and management occupations, and of persons in higher income groups.

As transatlantic passengers come predominantly from persons in these groups, the demand for foreign travel may also be expected to rise. The trend toward more leisure time in the United States economy also provides more time for foreign travel.

It is evident that additional berths will be required if United States-flag passenger ships are to maintain even their present low participation in transatlantic travel, excluding the possibility of increased participation in future growth.

The *America* and *United States*, during 1956, carried about one-fifth of the total passengers traveling by sea over the North Atlantic routes.

Despite the fact that North Atlantic routes are the most important of all the passenger routes in numbers of passengers carried, only these two American-flag passenger ships operate between the United States and the United Kingdom and that portion of the continent of Europe outside of the Mediterranean.

American Banner Lines will soon inaugurate service between New York and ports in Belgium and the Netherlands with a converted Mariner ship.

However, it should be emphasized that this ship, with a moderate speed of 20 knots and accommodations for about 900 passengers, mostly tourist class, is designed for an entirely different type of service from the express service provided by the United States.

The North Atlantic passenger service is highly competitive, and foreign-flag ships make many times more sailings than do United States-flag ships.

For example, during 1956 the *United States* and *America* made 39 sailings from the United States as compared with 265 sailings by foreign-flag passenger ships. The intensity of foreign-flag competition for passengers on the North Atlantic is further emphasized by the fact that the 265 foreign-flag sailings were provided by 29 ships operated by 9 different companies under the flags of 7 separate nations.

The steamship *United States*, on 123 transatlantic voyages made since its entry into service in July 1952 through 1957, provides convincing evidence of the ability of United States-flag passenger ships to compete with foreign-flag ships in this highly competitive trade.

This fast modern ship has been extremely effective in overcoming a long-standing belief on the part of many transatlantic travelers that foreign-flag ships are superior to those under American flag.

The *United States*, since her entry into service, has attained an exceptionally high degree of utilization.

For example, during the calendar year 1956 and the first 9 months of 1957, this ship was utilized to over 90 percent of salable capacity on sailings from the United States, and was almost completely utilized on return voyages.

The steamship *America*, during the last 2 years, showed about as high a degree of utilization despite the fact that it is an older, slower, and smaller ship, a fact which demonstrates the high degree of demand for passenger space in relation to the number of accommodations available.

The steamship *United States* has total accommodations for nearly 2,000 passengers, as compared with just over 1,000 berths for the steamship *America*.

However, the service speed of the *United States*, 30.7, as compared with 22.2 knots for the *America*, enables the former to make 22 to 23 voyages per year as compared with 16 to 17 for the latter. Thus, while the *United States* has nearly twice as many passenger accommodations as the *America*, the increased speed and resulting faster turnaround of the former ship results in an annual passenger carrying capacity about 2½ times that of the *America*.

Replacement of the *America* with a passenger ship equivalent in carrying capacity to the *United States* will provide additional accommodations for approximately 25,000 passengers annually, in each direction.

This very substantial increase in passenger traveling under the United States flag will assist materially in meeting the extremely heavy demand for passenger space during the peak season and will enable United States-flag ships to participate to some extent in the growing transatlantic travel market.

From a scheduling standpoint, the introduction into service of a sister ship of the *United States*, capable of a 5-day crossing, will permit weekly sailing with United States-flag ships between New York and northern Europe.

The present interspersing of sailings of the slower *America* with those of the faster *United States* results in an irregular schedule and occasionally both ships are scheduled to sail within a period of 2 to 3 days.

The *America* requires about 3 weeks to complete a round voyage as compared with 2 weeks for the *United States*.

It should be noted that foreign-flag lines are building new passenger ships to replace and augment older units.

During 1957 Holland-America Line placed the 955-passenger *Statendam* in its North Atlantic service, and now has under construction the 1,300-passenger *Rotterdam*.

The Swedish-American Line placed its new 840-passenger *Gripsholm* in transatlantic service in 1957, and the French Line has an-

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nounced the keel laying of its 31-knot, 2,000-passenger *France*, which is in the *United States* class.

Delay in the construction of a replacement ship for the *America* will end further encouragement to foreign-flag operators to expand their passenger services, and the United States-flag participation in this important trade will drop below its present low level.

ACTIONS TAKEN BY THE BOARD RELATING TO REPLACEMENT OF THE STEAMSHIP "AMERICA"

Recognizing the need for the replacement of the steamship *America*, the Board, on November 21, 1956, authorized the United States Lines to issue invitations for bids for the construction of a sister ship to the steamship *United States*.

Pursuant to section 501 (b) of the 1936 act, the plans and specifications which were issued pursuant to the invitations to bid were examined and approved by both the Federal Maritime Board and the Secretary of the Navy. This was accomplished February 8, 1957.

Bids were received in response to the invitations from three shipyards on March 21, 1957, with New York Shipbuilding Corp. the low bidder. On an adjusted price basis the low bid without stabilizer was $109,439,289.

Meanwhile, the Federal Maritime Board formulated a procedure to establish the national defense feature cost and make the foreign cost and construction differential determinations.

Owing to the substantial margin of speed provided in the steamship *United States*, sister ship over the commercially required speed, an entirely different ship would meet the United States Lines' requirements if the defense feature of speed were not involved.

Consequently, under the Board procedure, the Office of Ship Construction was directed to design the commercial equivalent vessel having the same number of passengers by classes, with comparable habitability standards, capable of operating at 30.7 knots in accordance with established Maritime Administration power margin standard to maintain that service speed established on the basis of the average speed maintained by the steamship *United States* on the first 100 voyages.

It should be noted that the 1957 commercial equivalent is different from the commercial equivalent developed by the Maritime Administration power margin standard to maintain that service speed established on the basis of the average speed maintained by the steamship *United States* on the first 100 voyages.

It should be noted that the 1957 commercial equivalent is different from the commercial equivalent developed by the Maritime Administration in 1948. This is due to the fact that the service speed of the commercial equivalent proposed now is 30.7 knots, whereas the speed of the commercial equivalent developed in 1948 was 28½ knots.

On May 14, 1957, New York Shipbuilding Corp. was requested to furnish their estimate for building the commercial equivalent vessel

based upon identical cost factors, where applicable, which were used in developing their bid on the steamship *United States* sister ship.

Their letter of June 26, 1957, submitted an estimated price of $90,130,924. This figure checks very closely with an independent estimate prepared by the Maritime Administration staff.

Since the appropriation was not made by the 1st session of the 85th Congress, further time became available to refine the commercial equivalent design. This was done principally by modernizing the basic concept with respect to employment of aluminum superstructures,

The reduced weight and lower center of gravity resulting therefrom provided a basis for decreasing propulsion horsepower with an overall saving of approximately $600,000.

The Board is having contract plans and specifications revised in an addendum to the plans and specifications which were given to New York Shipbuilding Corp. on May 14, 1957. The staff considers that this design represents a vessel which a prudent and experienced ship operator would build for competitive service in the North Atlantic.

Furthermore, we consider that the commercial equivalent is comparable and competitive with the new steamship *France* now being constructed at St. Nazaire for the North Atlantic passenger service.

There is attached herewith a tabulation comparing the unclassified characteristics of the steamship *United States* with those of the proposed sister ship, the 1948 commercial equivalent, the 1957 commercial equivalent, steamship *America*, steamship *Queen Elizabeth*, and published information on the new steamship *France*, now under construction.

(The tabulation referred to follows:)

Comparative characteristics of large transatlantic passenger liners

	Superliner, 1948	Superliner, 1957	Commercial equivalent of superliner, 1957	Commercial equivalent of superliner, 1948	*Queen Elizabeth*	*France* [1]	*America*
Length, overall	Ft. In. 990 0	Ft. In. 990 0	Ft. In. 957 6	Ft. In. 908 6	Ft. In. 1,031 0	Ft. In.	Ft. In. 723 0
Length, beam perpendicular			898 9	826 6			660 634
Beam, middle	101 6	101 6	105 0	105 0	118 0	984 0	93 3
Gross tonnage	53,329	53,329		51,000	83,673	108 3	26,314
Net tonnage	29,475	29,475		26,590	41,729		13,536
Passengers:							
1st class	913	892	892	808	822	500	519
2d class	558	524	524	700	668		414
3d class	537	551	551	508	798	1,500	116
Total	2,008	1,967	1,967	2,016	2,288	2,000	1,049
Crew:							
Deck	99	100					
Engine	146	117					
Purser's	42	43					
Steward's	779	779					
Total	1,066	1,039		1,025	1,250		677
Total cargo capacity	148,000	127,552	132,500	144,000	60,760		
Type of machinery	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Number of propellers	4	4	3	2	4	4	2
Shaft horsepower	158,000	158,000	135,000	100,000	160,000	160,000	34,000
Service speed	30.7	30.7	30.7	28.5	28.5	31	22

[1] Unofficial, taken from press releases.

[2] Steam turbine.

Mr. MORSE. It is estimated that the total cost of building the new sister ship of the steamship *United States* will be $128 million. This includes the cost to the operator, Government subsidies, national-defense costs, escalation during construction, and other charges incident to completion of this passenger ship.

In the event stabilizers are added, the ship will cost an additional $2 million. A summary of these costs and a comparison with the original steamship *United States* costs without stabilizers are:

	Sister ship to the SS. *United States*	Original SS. *United States*
Total cost	$128,000,000	$77,700,000
Government cost:		
Commercial vessel:		
Subsidy	29,800,000	18,600,000
National-defense features	22,500,000	26,300,000
Owner's cost	55,500,000	32,800,000

You will see on a 30.7-knot commercial ship the owner's cost is $55,700,000, whereas on the 28½-knot steamship *United States*, the owner's cost was $32,800,000.

That is exclusive of some additional items, owner-supplied items, and a few other things.

It is estimated that approximately 14 million man-hours labor would be required to construct the sister ship of the steamship *United States*.

Now, some question was asked earlier of the percentage of the overall cost of this $28 million ship. The commercial-vessel subsidy of $49,800,000 is the equivalent of 39 percent of $128 million.

The national-defense features are $22½ million and are 17.6 percent.

The owner's cost of $55,700,000 is 43.4 percent.

As compared to the original steamship *United States*, $18,600,000 was 24 percent of the aggregate cost, $26,300,000 was 33.8 percent of the aggregate cost, and $32,800,000 was 42.2 percent of the aggregate cost.

The CHAIRMAN. Will you go over those figures for me?

Mr. MORSE. $49,800,000 was 39 percent; $22½ million, 17.6 percent; $55 million, $55,700,000, 43.4 percent.

Do you wish me to repeat the same percentages?

The CHAIRMAN. That is all right. I have those.

Mr. MORSE. Nuclear power: The bill, H. R. 9654 provides that the new transatlantic superliner shall be equipped with nuclear propulsion, the purpose, the bill states, is to make the vessel competitive during its useful life and to prevent premature obsolescence.

In view of the construction of the nuclear-powered U. S. *Savannah* to be ready in 1960, the economic noncompetitiveness of present nuclear-propulsion plants as compared with conventional powerplants, we recommend against the use of nuclear propulsion in this vessel.

Before installing nuclear propulsion into a vessel of the size, power, and capacity of the superliner, we should have reasonable assurance of plant operability and economic performance.

We are at the present time constructing the the first nuclear-powered commercial vessel. We will be gaining our first practical

engineering knowledge of the use of nuclear power for this type of transportation.

We need the advantage of practical experience in operating such a vessel, particularly in foreign commerce. When we have some such practical experience with smaller propulsion plants and when we have prospects for an economically practical plant, we should be ready for the use of nuclear power in large units for commercial ocean transport of passengers.

Meantime, we plan to use every effort in the engineering and development leading to successful, economic use in competition with conventionally powered ships.

It is also desirable to have the experience of operating the U. S. *Savannah* in connection with the problems of securing insurance for a nuclear-powered vessel.

At present it is likely that underwriters who are available to cover marine builders risk and marine navigation hull insurance would exclude from coverage all consequences of nuclear incidents.

If any coverage is available for these specific risks, such amounts cannot at present be predicted.

Reluctance of underwriters is based upon lack of experience with this type of propulsion and the many legal questions as to liability, particularly in the case of vessels trading internationally.

It is probable that similar difficulties will apply to the procurement of marine protection and indemnity insurance.

Inquiry has been made as to the probable cost of installing nuclear propulsion in the superliner. Only an approximate figure can be ventured as to that cost. It would be in excess of $100,000,000 additional cost.

The CHAIRMAN. Before we pass the nuclear power, between nuclear power and existing power, what would be the estimated difference in the time for the construction of the vessel?

Mr. MORSE. Minimum of 1 year additional assuming we utilize existing powerplants that have been developed, Mr. Chairman.

PROJECTION OF OPERATING RESULTS

A projection of operating results on the basis of operating a sister ship to the steamship *United States* has been developed. This projection has been prepared, using as a base the past 5½ years' experience of operating the steamship *United States* by the United States Lines Co.

During this period the SS. *United States* experienced an average passenger utilization of 96 percent of normal total capacity.

Now, I might interpolate to say that that is about the optimum that anyone can expect in any year-round operation, and they have had no strikes or lay-ups, as indicated by General Franklin.

Insofar as the steamship *United States* is concerned, the results for this period indicate an average net profit of approximately $1,300,000 annually after subsidy and provision for the portion of taxes considered properly allocable against the earnings of this ship.

This produced an average return of approximately 10 percent on the capital employed, which consists of the company's equity in the ship and average working-capital requirements.

For a period of 5 of these same years, the average results of operating the steamship *America* after subsidy were a net loss of $227,400. When combined with the net profit on the steamship *United States*, after subsidy and taxes, there is produced a return of 7.73 percent on capital employed.

I might interpolate to say that $56 million is our computation of the cost of the ship to the United States Lines at 30.7-knot speed after 47-percent construction subsidy.

Mr. MAILLIARD. Mr. Chairman, might I interrupt at this point? The record might be a little confused. When we were talking about this combined profit picture a few minutes ago, you said 9½ was the combined total. This comes out 7.73.

Mr. MORSE. I was in error when I said 9½ percent.

Mr. MAILLIARD. I think the record should be corrected at that point.

Mr. MORSE. Thank you, Mr. Mailliard.

On the assumption of a projection using the above results on the steamship *United States*, and considering the combination of these results with a sister ship costing the company approximately $56 million, and considering the operating results of this ship for this same period to be the average reflected for the steamship *United States*, there would be projected a combined profit of approximately $1,540,000, which, on the basis of the capital employed applicable to both ships, would produce an estimated return of 5.6 percent after subsidy and taxes. This assumes an interest rate on financing the owner's cost of construction of 5 percent.

I will interpolate to say that that would be 4¼ or 4½ percent private financing plus one-half of 1 percent for mortgage-insurance premium.

If the interest rate was 3½ percent, the combined results would indicate a profit of $1,800,000, or a 6.6-percent return on capital employed. There, again, that is after taxes and after subsidy.

Taking the figures for the sister ship alone on the cost of $56 million, and considering an interest rate of 5 percent, all other factors identical to the steamship *United States*, with the exception of depreciation based on the $56 million cost and the higher interest rate, there is projected a return of 1.6 percent on the sister ship itself on the basis of capital employed.

On the basis of a 3½-percent interest rate, the projected return would be 3.5 percent.

Utilizing the same basis as above, but considering a sister ship costing $47 million, and assuming an interest rate of 5 percent, the combined result is estimated at 7.5 percent on the basis of capital employed.

I will interpolate to say there that the return to the United States Lines Co. on that basis substantially is identical to the return to them for the operation of the *United States* and the *America* today.

At an interest rate of 3½ percent, this return on capital employed would be increased to 8.4 percent.

The CHAIRMAN. You say this 7.5 is identical with the return on the *America* and the *United States* today?

Mr. MORSE. Substantially.

The CHAIRMAN. The sister ship would not bring a greater efficiency and greater return on the operation of the ships?

Mr. MORSE. At 5 percent. That is the difficulty. The high interest rate and the high depreciation is causing the difficulty here. It would

be a profitable operation, whereas the *America* loses over $200,000 per year; because of the interest factor, the earnings capacity is partially offset.

Mr. TOLLEFSON. There is a factor of the difference in capital invested in the *America* and the new ship, too.

Mr. MORSE. A very substantial difference. The annual depreciation on the sister ship costing $47 million is $2,193,750.

If we assume the sister ship costs $56 million, the annual depreciation is $2,643,750.

Mr. MAILLIARD. What is the annual depreciation on the *America*?

Mr. MORSE. My recollection is it is in the neighborhood of——

Mr. MAILLIARD. Less than half a million dollars, is it not?

Mr. MORSE. I will have to supply that for the record. I think it is less than half a million dollars. (The actual figure is $596,994.)

The results of the sister ship itself, on the basis of a $47 million cost, indicate a return of 4.9 percent on capital employed.

At an interest rate of 3½ percent, the return would be increased to 6.8 percent on capital employed.

If the steamship *United States* were to continue operating as a single passenger-ship operation, and if it were assumed that the present average operating results continued—a factor of considerable doubt if fortnightly sailings only were available to the public—the average profit after subsidy and taxes is estimated at $1,265,774, which represents a return of 9.6 percent on capital employed.

This reduction in profit results from the greater absorption of administrative expenses and overhead allocable to the steamship *United States* under the revenue formula used in allocating these expenses with the exclusion of the revenue of the steamship *America* from consideration in the allocation process.

It is not contemplated that any material savings will result in administrative expenses and overhead as a result of the operation of a single passenger ship.

In the calculation of these projections, the only financing costs considered have been interest on the permanent mortgage at 3½ or 5 percent, respectively.

When consideration is given to other costs of private financing, consisting of interest during the construction period, commitment fees, and insurance premium, there is developed an additional cost of approximately $3,500,000 on a ship costing the operator $47 million.

It is estimated that these costs would be $4,100,000 on a ship costing $56 million.

The effect of these increased financing costs would be a reduction of approximately three-quarters of 1 percent in the ratio of return on capital employed from that previously indicated.

Now, that is all of the prepared statement in respect to the steamship *United States*. We have worked up quite complete figures on projected earning capabilities of the steamship *United States* with a sister ship at $47 million with 3½ percent and 5 percent interest, at $53 million with 2 interest rates, at $56 million, and at $60 million.

If you wish it for the record, we will be pleased to supply it.

The CHAIRMAN. Yes, we will be glad to have them for the record.

(The material referred to follow:)

Estimated average annual earnings that would have resulted from operating a sister ship to the SS. "United States" with the SS. "United States" over a 5½-year period, using as a basis estimated average annual results of the SS. "United States" for this 5½-year period

	SS. *United States*	Sister ship costing company $47,000,000		Combined		Sister ship costing company $53,000,000		Combined	
		3½ percent interest rate	5 percent interest rate	3½ percent interest rate	5 percent interest rate	3½ percent interest rate	5 percent interest rate	3½ percent interest rate	5 percent interest rate
Results assuming total cost to company as indicated (no provision for interest during construction):									
Profit before depreciation and mortgage interest [1]	$5,019,979	$5,019,979	$5,019,979	$10,039,958	$10,039,958	$5,019,979	$5,019,979	$10,039,958	$10,039,958
Depreciation	1,614,714	2,193,750	2,193,750	3,808,464	3,808,164	2,493,750	2,493,750	4,108,464	4,108,464
Interest	666,235	1,110,375	1,586,250	1,776,610	2,252,485	1,252,125	1,788,780	1,918,360	2,454,985
Profit before taxes	2,739,030	1,715,854	1,239,979	4,454,884	3,979,009	1,274,104	737,479	4,013,134	3,476,509
Taxes	1,424,296	892,244	644,789	2,316,540	2,069,085	662,534	383,489	2,086,830	1,807,785
Net profit to operator	1,314,734	823,610	595,190	2,138,344	1,909,924	611,570	353,990	1,926,304	1,668,724
Capital necessarily employed	$13,152,774	$12,100,000	$12,100,000	$25,252,774	$25,252,774	$13,575,000	$13,575,000	$26,727,774	$26,727,774
Ratio, net profit to capital necessarily employed	10.00	6.81	4.92	8.47	7.56	4.51	2.61	7.21	6.24
Voyage revenue	$19,567,811	$19,567,811	$19,567,811	$39,135,622	$39,135,622	$19,567,811	$19,567,811	$39,135,622	$39,135,622
Ratio net profit to voyage revenue	6.72	4.21	3.04	5.46	4.88	3.13	1.81	4.92	4.26
Results assuming additional costs due to title XI financing and interest during construction estimated to be			$3,500,000				$3,900,000		
Depreciation			$175,000				$195,000		
Interest on increased mortgage indebtedness			$118,000				$132,000		
Tax adjustment			($152,360)				($170,040)		
Net reduction in profit			$140,640				$156,960		
Adjusted net profit to operator			$454,550		$1,769,284		$197,030		$1,511,764
Adjusted capital necessarily employed			$12,975,000		$26,127,774		$14,550,000		$27,702,774
Ratio adjusted net profit to adjusted capital necessarily employed			3.50		6.77		1.35		5.46
Ratio adjusted net profit to voyage revenue			2.32		4.52		1.01		3.86

[1] Based on operator's statement Jan. 14, 1958.

Estimated average annual earnings that would have resulted from operating a sister ship to the SS. "United States" with the SS. "United States" over a 5½-year period using as a basis estimated average annual results of the SS. "United States" for this 5½-year period

	SS. *United States*	Sister ship costing company $56,000,000		Combined		Sister ship costing company $60,000,000		Combined	
		3½ percent interest rate	5 percent interest rate	3½ percent interest rate	5 percent interest rate	3½ percent interest rate	5 percent interest rate	3½ percent interest rate	5 percent interest rate
Results assuming total cost to company as indicated (no provision for interest during construction):									
Profit before depreciation and mortgage interest [1]	$5,019,979	$5,019,979	$5,019,979	$10,039,958	$10,039,958	$5,019,979	$5,019,979	$10,039,958	$10,039,958
Depreciation	1,614,714	2,643,750	2,643,750	4,258,464	4,258,464	2,843,750	2,843,750	4,458,464	4,458,464
Interest	666,235	1,324,000	1,890,000	1,989,235	2,556,235	1,417,500	2,025,000	2,083,735	2,691,235
Profit before taxes	2,739,030	1,053,229	486,229	3,792,259	3,225,259	758,729	151,229	3,497,759	2,890,259
Taxes	1,424,296	547,679	252,839	1,971,975	1,677,135	394,539	78,639	1,818,835	1,502,935
Net profit to operator	1,314,734	505,550	233,390	1,820,284	1,548,124	364,190	72,590	1,678,924	1,387,324
Capital necessarily employed	$13,152,774	$14,325,000	$14,325,000	$27,477,774	$27,477,774	$15,325,000	$15,325,000	$28,477,774	$28,477,774
Ratio net profit to capital necessarily employed	10.00	3.53	1.63	6.62	5.63	2.38	0.47	5.90	4.87
Voyage revenue	$19,567,811	$19,567,811	$19,567,811	$39,135,622	$39,135,622	$19,567,811	$19,567,811	$39,135,622	$39,135,622
Ratio net profit to voyage revenue	6.72	2.58	1.19	4.65	3.96	1.86	0.37	4.29	3.54
Results assuming additional costs due to title XI financing and interest during construction estimated to be			$4,100,000				$4,500,000		
Depreciation			$205,000				$225,000		
Interest on increased mortgage indebtedness			138,000				151,874		
Tax adjustment			(178,360)				(195,974)		
Net reduction in profit			164,640				180,900		
Adjusted net profit to operator			68,750		$1,383,484		($108,310)		$1,206,424
Adjusted capital necessarily employed			$15,350,000		$28,502,774		$16,450,000		$29,602,774
Ratio adjusted net profit to adjusted capital necessarily employed			0.45		4.85				4.08
Ratio adjusted net profit to voyage revenue			.35		3.54				3.08

[1] Based on operator's statement Jan. 14, 1958.

Source: Prepared by Department of Commerce Maritime Administration.

Mr. MORSE. A question was asked also during the day as to passenger traffic. The figures I have for 1938 showed that the total outbound waterborne passenger traffic in 1938 was 255,863, twenty-four thousand-odd being carried in United States flag and 231,500 being carried in foreign flag.

Inbound there were 305,411, 34,900 in American flag and 270,500 in foreign flag.

In 1953, total outbound was 316,943. United States flag, 71,710; foreign flag, 245,232.

Inbound, 353,719. United States flag, 76,966; foreign flag 276,753.

1956, outbound, 335,152. United States flag, 73,584; foreign flag 261,568.

Inbound, 400,770. United States flag was 80,677; foreign flag, 320,093.

Mrs. SULLIVAN. Was that all traffic, or was that to and from Europe?

Mr. MORSE. Passengers carried between United States, North Atlantic, and United Kingdom, Europe and Mediterranean area.

Mrs. SULLIVAN. In other words, it is on the Atlantic side?

Mr. MORSE. Yes, just the Atlantic. That includes not only passenger ships, but passenger combination ships and freighters.

Also, there was an inquiry about the vessel and speeds for the blue-ribbon transit of the North Atlantic.

I have here a clipping from the Norwegian Shipping News of November 22, 1952, that starts back in 1838. The speed was 6.70, but getting down to more recent times this goes through 1952 and that is the most recent speed record.

In 1900, for example, the *Deutschlander* was 24.37.

In 1909, the *Mauretania*, 26.06.

1929, the *Europa*, 27.92.

Then it gradually inches upward until 1938, the *Queen Mary*, 31.69.

1952, the *United States*, 35.59.

Transpacific passenger traffic and the proposed Pacific superliner:

The vessel replacement program of American President Lines includes the construction of a passenger vessel for use in its subsidized transpacific service. According to information on file with the Maritime Administration, the proposed vessel will have the following characteristics:

Length overall: 908' 6"
Speed (knots): 26
Passenger accommodation, total: 1,490 [1]—1,450 to 1,490:
First class, 568
Cabin class, 319
Tourist class, 603

The proposed vessel is to be operated on the company's transpacific passenger-cargo service, on which regular service is required by the terms of the operating differential subsidy agreement contract FMB–50 on a minimum of 24 and a maximum of 26 sailings per annum. The service is described as follows:

"Between San Francisco, Honolulu, Japan, Hongkong, and Manila, with permissive calls at Los Angeles and Shanghai. * * *"

[1] Based on preliminary plans representing normal arrangements by class. Certain accommodations in each class can be converted to the next higher or lower class as required by demand.

The company is presently serving two ports in Japan—Kobe and Yokohama—and is not serving Shanghai.

Should trading limitations with China be relaxed, calls at one Japanese port—presumably Kobe—probably would be eliminated so that Shanghai could be served.

The transpacific passenger service is at present maintained with the three combination passenger-cargo vessels of the following characteristics:

	President Cleveland	*President Wilson*	*President Hoover*
Length overall	609 feet 5¾ inches	609 feet 5¾ inches	475.
Speed	19	19	17½.
Passenger accommodations, total	758 [1]	758 [1]	216 (one class).
First class	326	326	216.
Cabin class			
Tourist class	432	432	
Built	1947	1948	1939.

[1] Certain rooms are convertible which could increase overall capacities slightly.

These ships transported about 18,500 passengers in 1957.

Only one other carrier offers passenger service at present with combination passenger-cargo vessels in direct competition with American President Lines. This competition is provided by OSK, a Japanese-flag operator who offers about one sailing a month in its Japan-California service.

However, it should be pointed out that Japanese interests have been discussing for the past several years the construction of 3 combination passenger-cargo vessels which could accommodate, depending on vessel capacity, between 15,000 and 25,000 passengers annually.

Further, the new releases of Sunday, February 2, 1958, announced the building of 2 new superliners expected ready in 1961, for a new service by P. & O. Line—British flag—which it is stated can accommodate 20,000 passengers transpacific per annum between United States Pacific coast ports and the Far East—Japan, Philippines.

Thus, it is apparent that the operations of each of these operators will provide additional surface competition on the route with large modern passenger lines.

The company also announced that services will begin in March 1958, and will be maintained with existing passenger vessels until the new ships are ready for service.

American President Lines for the past several years has been operating its transpacific passenger-cargo vessels at better than 75 percent capacity, or approximately the salable capacity of the ships, particularly the first-class accommodations, outward and inward, and the tourist class inbound.

None of these vessels employed by American President Lines on the service are fitted for the carriage of cabin class passengers.

The California-Far East passenger carryings of the transpacific passenger-cargo ships of American President Lines by class of accom-

modation, out and in separately, for calendar years 1955, 1956, and 1957, are shown below:

Year	Outbound			Inbound		
	Total	First class	Tourist class	Total	First class	Tourist class
1955	6,202	3,356	2,846	9,681	3,815	5,866
1956	7,062	3,985	3,077	9,596	3,761	5,835
1957	[1] 8,307	[1] 5,051	3,256	[1] 10,214	[1] 4,960	5,254

[1] The SS. *President Hoover* entered service in February and since that time has provided extra 1st-class passenger capacity on the service.

Transpacific passenger travel has shown continued growth for several years at a fairly rapid pace, although like the transatlantic trade the greater portion of the growth has been in air travel.

The lesser increase in sea travel has been due to a large degree to the lack of available accommodations on the surface carriers and has fluctuated due to the use of controlled tonnage of the Department of Defense, carrying among other passengers, military dependents.

The volume of transpacific passenger travel for fiscal years 1955, 1956, and 1957 is hereinafter shown.

Volume of passenger traffic between United States and China, Hong Kong, Japan, Korea, and the Philippines—Excludes military; includes dependents

	1957	1956	1955
Total	240,572	205,346	196,495
Sea	89,309	84,416	104,668
Air	151,263	120,930	91,827

Analysis shows that in 1956 the volume of traffic moving by air exceeded the volume moving by sea when 59 percent of the total moved by air.

In 1957, despite an increase in the volume of sea travel, air travel showed further gains and represented 63 percent of the total.

A study of the point of origin and destination of trans-Pacific passengers indicates that the great majority of such passengers moved between Japan and the Philippines and the United States, and that a large proportion are Government sponsored—dependents, civilian, employees, et cetera.

Despite the large volume of trans-Pacific passengers shown as moving by sea—89,000 in 1957—commercial carriers—United States and foreign flag—all vessels—transported only about 22,000 due to limited capacities.

Thus it becomes apparent that the initial success of adding an additional passenger liner—with an annual capacity of about 24,000—to the trans-Pacific service depends on the cooperation of the Government in utilizing commercial vessels when available.

On a long-range basis, it is feasible to estimate that an ample number of passengers will be available within 5 to 10 years to support the proposed operation of this and other existing trans-Pacific combination passenger-cargo vessels both United States and foreign flag.

Additional traffic will be generated first from a business viewpoint, since the far-eastern countries involved are important markets for the expanding industrial output of the United States and the United States is a source of many raw and semifinished materials needed in the areas, and, secondly, from a tourist viewpoint, the United States Pacific coast has experienced a rapid increase in population and the areas in the Far East offer many tourist attractions. Thus the continued growth and prosperity of the two areas are closely related.

Two of the vessels presently employed by the company, steamships *President Cleveland* and *President Wilson*, were built in 1947–48, specially fitted for the service. These two vessels are operating at or near salable capacity.

The third vessel, steamship *President Hoover*, was recently acquired as a temporary measure to accommodate passengers in excess of the company's ability to otherwise handle.

The steamship *President Hoover*—ex Panama—was built in 1939, and will be 20 years old in the near future. The vessel cannot, due to speed and the number of passenger accommodations, be properly coordinated with the operations of the *Cleveland-Wilson* and, in fact, the vessel normally omits Los Angeles and Honolulu in order to correlate its schedule to a limited degree with the other two vessels.

The passengers being carried by the steamship *President Hoover* represent a nucleus which could be readily expanded in support of the operations of a third vessel of suitable design in the trade.

However, since the proposed new vessel will have a capacity of between 1,450 and 1,490 passengers, it would appear that at 80 percent of salable capacity about 1,100 passengers would be carried each outbound sailing.

Based on a 32-day voyage a total of about 24,000 passengers—1,200 each way—must be transported annually to operate at 80 percent utilization.

American President lines only carried about 18,500 passengers—total out and in—during calendar year 1957.

Thus, it is apparent that the company must in the event a passenger liner is constructed, increase its passenger carryings by over 125 percent immediately upon introduction of the new vessel into service, or alternately reduce its present trans-Pacific combination passenger-cargo fleet by the number of units required to operate the vessel on an economic basis.

Passenger traffic on the area has shown a 52-percent increase during the 3-year period since 1954. It is expected, based on passenger traffic trends in this and other areas, that such passenger traffic will continue to increase, in which event ample traffic should be available by 1961 to support the operations of the proposed new vessel.

Therefore, from a traffic viewpoint, it appears that there would be adequate passenger traffic moving on the area to support the operation on the service of a third vessel—which would replace the *President Hoover*.

It should be noted that there does not appear to be a practicable method of fully integrating the schedules of the new liner and the

steamships *President Cleveland* and *President Wilson*. However, a satisfactory schedule could be obtained by the use of Los Angeles and Kobe as ports of call, or omission of one or both on certain voyages by the steamships *President Cleveland* and *President Wilson*.

If the announced plans of competing surface carriers are carried out, the operator will meet with strong competition. The competition thus generated would be of direct nature and would probably be felt more keenly than that which is presently provided by competing air carriers.

Therefore, prompt action should be taken on the proposed construction in order the modern United States flagships will be in position to effectively meet this competition.

Cost and design of a proposed trans-Pacific liner:

Under date of January 6, 1958, American President Lines transmitted preliminary deck arrangement plans and the commercial characteristics of their proposed new trans-Pacific passenger vessel. The principal characteristics for the new ship compared to their present passenger-cargo ships, the steamships *President Cleveland* and *President Wilson*, now operating in this same service, are as follows:

Characteristics	Proposed 26-knot liner	Steamship *President Clereland*
Length overall	908 feet 6 inches	609 feet.
Length on waterline	861 feet	590 feet.
Beam	103 feet	75 feet.
Dry bale capacity (cubic feet)	140,000	225,000.
Reefer capacity (cubic feet)	30,500	32,000.
Liquid cargo (tons)	1,412	None.
Speed	26 knots	19½ knots.
Passengers	1,450	828.
Crew	721	577.
Gross tonnage	43,000 (approximate)	15,437.

The processing of this application is in a very preliminary stage. Supporting design calculations have not been submitted and, therefore, the plans and specifications have not been sent to the Department of the Navy as required by section 501 (b) of the act, for purposes of determining whether national defense features, if any, are required.

The total estimated domestic cost including escalation, changes, owner's items, et cetera, but without national defense features, is $76 million.

In other words, we are saying that the commercial equivalent would cost $76 million.

On the basis of an estimated 47 percent construction-differential subsidy rate, the total cost will be apportioned $35,700,000 to the Government, and $40,300,000 to American President Lines.

Due to the current reduction in foreign shipbuilding activities and consequent stabilization of foreign costs which was not evident during the preparation of the fiscal 1959 budget, the present estimate for Government participation is $1,70,000 higher than the original or budget figure. There is corresponding reduction in the cost to the American President Lines.

The next comment I have has reference to the outstanding bids on the steamship *United States*.

The bills differ as to the use of the 1957 bids for construction of the superliner.

In view of the lapse of time between the outstanding bids and the execution of contracts and the lessening of new construction work in the shipyards, there is a possibility that rebidding may result in slightly reduced cost.

On the other hand, the bids are open until canceled by the bidders.

It is our opinion that rebidding would not tend to promote the integrity of competitive bidding.

As a practical matter, the original bids were considered very competitive and there is no assurance that the Government would definitely benefit by rebidding.

Now, I have a statement here also to indicate the different approach of American President Lines——

The CHAIRMAN. Do I gather that the Board considers the existing bid a fair bid at this time?

Mr. MORSE. I would prefer to speak for myself because I have not discussed this question with the Board. I feel that it is a fair bid.

The CHAIRMAN. And you are bound by the bid until you get a declination?

Mr. MORSE. The bid is open at this date so that we could accept it today and the bidder is obligated to proceed with his bid—we are not bound by his bid. We can reject the bid, but I think as a matter of integrity in bidding we should not do so.

The CHAIRMAN. You are not bound by the bid?

Mr. MORSE. No, sir; we could reject the bid.

The CHAIRMAN. The bidder has not put up a deposit?

Mr. MORSE. He has put up a deposit.

The CHAIRMAN. That has been standard?

Mr. MORSE. Yes, sir.

The financial results of operating the proposed ships as submitted by both United States Lines Co. and American President Lines vary as to the basis used. Therefore, it is difficult to draw a comparison as such on either basis presented.

A basis which we have used in the Maritime Administration, using the same basic figures and the same basic assumptions as are used by the companies, to the extent possible, has been developed.

I have already referred to the financial results concerning the replacement of the steamship *America*, which were projected to determine what the results would have been had a sister ship to the steamship *United States* been operating during the past 5½ years, with the same earning capacity as the steamship *United States*, and with the cost of the sister ship calculated on the basis of current construction costs.

We have further developed a projection in which we have attempted to reconcile the financial results of both the replacement of the steamship *America* and the superliner for the transpacific service. We have used the assumptions made by both companies that there would continue throughout the life of both ships the same earning capacity, which assumption, of course, is highly optimistic.

Taking first the replacement for the steamship *America*, assuming a replacement ship costing the operator $47 million, and further assuming as capital employed an amount representing the downpay-

ment 25 percent in each case. After allowing for depreciation and interest computed at the rate of 3½ percent over the life of the ship, and after taxes, there is a resulting net profit of $1,045,685, which represents 8.9 percent of the capital employed—or downpayment—on the ship.

If we were to further allow for a provision for interest during the construction period at 3½ percent and amortize this interest over the life of the ship, the resulting adjusted net profit would be approximately $1 million, or a return of 7.36 percent on capital employed.

Now, taking the transpacific liner and making the same assumptions, the results as noted in the American President Lines presentation at an interst rate of 3½ percent are an average profit of $431,741.

Comparing this with the capital employed—downpayment—of this ship, the results are 3.7 percent on capital employed.

If private financing was resorted to and we were to assume on this basis an interest rate of 5 percent, the adjusted net profit on a replacement ship to the steamship *America* costing $47 million on this basis would be $795,000, or a ratio of 6.3 percent on capital employed.

On the basis of private financing, in the case of the American President Lines ship, the average adjusted net profit would be $224,000, or a return of about 2.15 percent on capital employed.

Utilizing these same assumptions, on a replacement ship costing the United States Lines Co. $56 million, on a basis of 3½ percent interest rate during the construction period, and on the mortgage, a return on capital employed is estimated at 4.43 percent, whereas, under private financing at an interest rate of 5 percent, the return is estimated at 3.16 percent.

The CHAIRMAN. That concludes your general statement, does it?

Mr. MORSE. Yes, sir.

The CHAIRMAN. Mr. Morse, we will have to recess now until Monday at 10 o'clock.

Would that be convenient for you to return at that time?

Mr. MORSE. Certainly.

The CHAIRMAN. The committee will adjourn now until Monday morning at 10 o'clock.

(Thereupon at 5 p. m., the committee was recessed, to reconvene at 10 a. m., Monday, February 10, 1958.)

21620—58——17

SUPERLINER LEGISLATION

MONDAY, FEBUARY 10, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 219, Old House Office Building, Hon. Herbert C. Bonner, chairman of the committee, presiding.

The CHAIRMAN. The committee will come to order.

We will continue with Mr. Morse, who was testifying when we finished on Friday.

STATEMENT OF CLARENCE B. MORSE, CHAIRMAN, FEDERAL MARITIME BOARD—Resumed

Mr. MORSE. Mr. Bonner, I read a fairly long statement into the record. I think it would be simple for the committee if I briefly summarized the substance of what I said.

The CHAIRMAN. All right, that is fine, Mr. Morse.

Mr. MORSE. We made substantially, 4 points.

The first is that in view of the historical use of the *States* at 30.7 knots we cannot justify a ship as a commercial equivalent at less than 30.7 knots.

The second point is we are not in support of atomic power on the *America* replacement.

The third point is we do not feel that there is justification for having the *America* replacement rebid.

The fourth point is that the figures show that the United States Lines is asking for a substantially greater return on its investment on the *America* replacement than is the American President Lines for the passenger ship that it is proposing to build.

The CHAIRMAN. Mr. Gross.

Mr. GROSS. Mr. Morse, one of the reasons for building a superliner for transatlantic service is because of competition; is that correct? I believe you so stated.

Mr. MORSE. Yes, sir.

Mr. GROSS. The French are now building a superliner. I believe your testimony shows it is a 31-knot superliner.

Mr. MORSE. Yes, sir.

Mr. GROSS. About the size of the ship that you propose.

Mr. MORSE. About the same size as the steamship *United States*.

Mr. GROSS. However, not quite as large as the one projected here.

Mr. MORSE. The one projected here is a duplicate of the steamship *United States*.

Mr. GROSS. So that the ship the French are already building would be comparable to the ship proposed here for transatlantic service?

Mr. MORSE. Yes, sir.

Mr. GROSS. What is the cost of that ship; do you know?

Mr. MORSE. Yes, we have figures on that. I have both the contract cost and the estimated adjusted price basis. The total cost after adjustments or escalation will be approximately $75 million. The cost to the owner is estimated to be $56,250,000, and the French Government subsidy $18,750,000.

Mr. GROSS. Is this new liner completely air conditioned that we are proposing to build? Will it be completely air conditioned?

Mr. MORSE. That we are proposing to build?

Mr. GROSS. Yes.

Mr. MORSE. Yes, sir.

Mr. GROSS. And so will the French liner; is that correct? I noticed an item in the paper yesterday that it was supposed to be completely air conditioned.

Mr. MORSE. Mr. Hoffman tells me that the French ship is supposed to be air conditioned.

Mr. GROSS. Crew quarters and everything?

Mr. MORSE. Yes, sir.

Mr. GROSS. I wonder where the French are getting the money in view of the fact that they just walked out of Washington the other day with $665 million and they are supposed to be bankrupt. I wonder where they are getting the money to build their ship. You may be in no position to comment on that, but I cannot help but wonder how many transatlantic liners we are building, whether we are building 1 or 2; whether we are building one for the French to compete with us. If you have any comment on that I would like to have it.

Mr. MORSE. I do not know the facts on that.

Mr. GROSS. You probably saw in the paper the other day that they got another $665 million from the United States I cannot understand how the French can build a superliner without help from this country.

Mr. MORSE. I could speculate but I do not think any speculation would be of any help to this committee.

Mr. GROSS. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Dellay?

Mr. DELLAY. No questions.

The CHAIRMAN. Mr. Curtin?

Mr. CURTIN. No questions.

The CHAIRMAN. Mr. Allen?

Mr. ALLEN. Thank you, Mr. Chairman.

Mr. Morse, what is the theory of the subsidy that the French Government pays? Is it national defense, or is it to help employment, or what is the philosophy?

Mr. MORSE. I think on the premise that their shipbuilding costs are more expensive than the other countries in Europe, primarily West Germany, Holland, and England.

Mr. ALLEN. Do you know if they build with materials that they can obtain with francs, or do they have to go into the international market for their material?

Mr. MORSE. I cannot answer that, sir.

Mr. ALLEN. Do you know whether they build into a French liner competitive to the *States* anything like the national-defense features that we build in?

Mr. MORSE. My guess would be in the negative. To the best of our information it is just a straight commercial ship at 31 knots.

Mr. ALLEN. That would sort of indicate that our ship in the case of emergency is to carry the fight somewhere else, but all they are interested in is carrying the passengers commercially.

Mr. MORSE. That is right.

Mr. GROSS. Will you yield?

Mr. ALLEN. Yes.

Mr. GROSS. That can apparently account for the fact that the story in yesterday's newspaper said that this steamship *France* would cost $78 million rather than $75 million, a difference of only $3 million. That apparently accounts for at least some of the difference there between the cost of their vessel and the one proposed to be built by the United States.

Mr. MORSE. Very definitely. We have additional speed included for a national defense ship.

Mr. GROSS. Ours is what speed, again?

Mr. MORSE. The published speed of the steamship *United States* was 35 knots, but the top speed is secret.

Mr. GROSS. Thank you.

Mr. ALLEN. While we have been talking about a 30.7-knot vessel in this case, that is the commercial speed for the basis of subsidy and there is additional speed in the new vessel that would go 3, 4, 5 knots more, or whatever it is?

Mr. MORSE. That is right, and would be picked up as a national defense cost.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. What would be your idea or estimate, were defense features built in the French vessel, of the additional cost?

Mr. MORSE. We estimate that the cost of the *America* replacement as a 30.7-knot ship would be $105,500,000 delivered ship as a commercial ship and that the national defense cost is another $22½ million. It would be that relationship of $105,500,000 to the $75 million estimated cost of the French ship, so I would assume it would be about three-quarters of $22½ million, or $17½ million in round figures, additional cost for defense features if the same defense features were included in the steamship *France*.

The CHAIRMAN. And the differential in foreign cost to France is the ratio of what in comparison to our foreign-cost differential? What is the ratio?

Mr. MORSE. We are tentatively estimating a 47 percent construction subsidy for the *America* replacement.

The CHAIRMAN. That is based on the most economical and substantial foreign ability to build?

Mr. MORSE. Yes, sir.

The CHAIRMAN. Then the French allow, you say, approximately $18 million in their differential. What would be then the total differential?

Mr. MORSE. There is roughly one-fourth, roughly 25 percent.

The CHAIRMAN. There is roughly 25 percent?

Mr. MORSE. Yes, sir.

The CHAIRMAN. Then ours would be pretty close to 50 percent?

Mr. MORSE. Ours is nearly double their differential.

The CHAIRMAN. Yes, it would be about 50 percent.

Mr. MORSE. Yes, sir.

The CHAIRMAN. That is what I thought.

Mr. Tollefson?

Mr. MORSE. Mr. Chairman, in my initial statement this morning there was one point which I failed to mention earlier which I would like to have included and that is that we feel that the American President Lines bill is premature. We do not feel that they have yet established that they are unable to build under the existing legislation or with public financing, because we are using a probably higher construction subsidy rate than they were using for their computation.

We are talking about 47 percent whereas they used, I believe, 43 percent in their computations, so it will materially affect the return on their investiment. Therefore, I think that they can build with private financing even under the existing law and still receive the same return on their investment that they were talking about with 43 percent subsidy and public financing.

Mr. TOLLEFSON. The chairman was discussing with you French construction subsidy money.

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. Can you tell me why the French have a construction subsidy?

Mr. MORSE. It was our experience in checking building costs in foreign countries that the French costs were higher than West Germany, Holland, or England.

Mr. TOLLEFSON. Were they that much higher?

Mr. MORSE. In that general area; yes, sir.

Mr. TOLLEFSON. About 25 percent higher?

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. What I was getting at was I wanted to ascertain whether it was the same kind of a construction subsidy that we have, or if it was a subsidy designed only to help the shipping industry.

Mr. MORSE. I believe it is the latter. I do not know precisely how it is computed but I believe it is arrived at more by a negotiation between the Government and the owner.

Mr. TOLLEFSON. So one of the objectives at least of that subsidy is in the form of Government assistance?

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. Whereas ours just is a differential subsidy paying the difference between the cost of building the ship there and the cost of building it elsewhere?

Mr. MORSE. Yes, sir. I think it is a distinction without a difference. The result to the owner is substantially the same, in other words.

Mr. TOLLEFSON. I can see a difference. If one is strictly a differential and the other is in the nature of assistance I can see some difference.

In your prepared statement on page 15, you speak of the replacement of the *America* and say that if the United States Lines paid $56 million as their share and used private financing their projected

return would be 1.6 percent and Government financing would bring them a projected return of 3.5 percent.

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. Then on page 17, you say that from those figures should be deducted three-quarters of 1 percent.

Mr. MORSE. On the private financing basis, because the figure of 1.6 percent is on an interest rate of 5 percent and it did not take into consideration the financing cost, commitment fees, and mortgage insurance premium.

Mr. TOLLEFSON. So that the projected return on $56 million, using private financing, would not be 1.6 percent, but would be 1.6 percent less three-quarters of 1 percent.

Mr. MORSE. Not exactly, it would be 0.45 percent.

Mr. TOLLEFSON. Would the same apply to 3½ percent return on Government financing?

Mr. MORSE. No, it would not apply there, because 3½ percent would be the total interest rate.

Mr. TOLLEFSON. However, you could say the same for the figure $47 million where you estimate the return would be 7.5 percent on private financing. You would have to deduct three-quarters of a percent from that, too?

Mr. MORSE. The 7.5 percent is the combined result of the two ships. On a $47 million ship, the return on the capital necessarily employed, assuming 5 percent interest, is 4.92 and 3½ percent interest would be 6.81. You would deduct 1.4 percent from 4.92 and you would have roughly 3.5 percent as the return on the 5 percent basis.

Mr. TOLLEFSON. On the APL ship the bill asks for Government financing and suggests that a provision be made with respect to the amount of the subsidy. If it were not for those two questions, then they could build the ship under present law, and that is the thing that you have in your mind, is it not? In other words, they want a provision in the bill so they suggest in effect that the differential subsidy might exceed 50 percent, which is the figure under present law.

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. Then they ask for Government financing.

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. Those are the two items that concern you?

Mr. MORSE. That is correct.

Mr. TOLLEFSON. And you are saying, in effect, that there is no need for those two items and that they can build the ship under the 1936 act?

Mr. MORSE. Until the ship is built without those no one knows whether they will exceed 50 percent or not exceed 50 percent. I think it is premature to ask that the legislation be opened for this specific case until we know it cannot be built under existing law.

Mr. TOLLEFSON. That is all, Mr. Chairman.

The CHAIRMAN. That statement is in respect to the American President Lines?

Mr. MORSE. Yes, sir.

The CHAIRMAN. Mr. Morse, tell me what has transpired since we held the first hearing on this subject when at that time we were

mutually of the opinion that the *America* could not be replaced under existing law.

I do not care to waste the time of the members of this committee and I do not want the committee to be embarrassed. I want to in all ways possible conduct the affairs of this committee with dignity and with forethought, and not unnecessarily to take up the time of the members of the committee, but evidently something has transpired since the time we held the first hearing on this subject.

Mr. MORSE. There has been no change in my thinking, Mr. Bonner, at any stage of the game. When the United States Lines first discussed with me the question of putting in a special bill and I first saw the special bill that they were proposing, I said that I would have to check it out at higher level whether there would be any objection to having a special bill put in. I did check it out and I obtained a statement that there would be no objection, but I stated at that time to General Franklin, and I have since stated and I repeat today, that I did not approve $47 million as the price nor did I approve Government financing. I thought it could be built with private financing.

What we are talking about fundamentally is the willingness of the United States Lines Co. to build a ship if they are not assured 10 percent return on their capital necessarily employed. Fundamentally, that is the only problem we have and that turns only on the question of speed. We have no problem with the $47 million ship if we are talking about 28½ knots, but I, as one member of the Board, and Mr. Stakem is here and I am speaking also for Mr. Stakem—I do not know what Mr. Guill's views are—Mr. Stakem and myself under the facts as they exist cannot and would not approve 28½ knots as a commercial ship for construction subsidy.

Fundamentally, we are talking about speed only, because there is no problem on the $47 million as the price of a 28½ knot commercial equivalent.

If it is a 30.7 commercial equivalent our figures show it is going to cost a few hundred thousand dollars under $56 million. Our figures show $55,700,000. I do not think there is any in between. It is either the speed that the ship has been operated at or it is the speed of the *Queens*.

In view of the fact that the French are building a 31-knot ship I do not see how we could justifiable approve the lower speed.

The CHAIRMAN. Then the question here is to do what?

Mr. MORSE. I think there are only two solutions to this problem. One is the willingness of the United States Lines Co. to pay for the more expensive ship and accept a lesser return on their investment or, alternatively, if they refuse to do that and if we are going to get a ship built it will presumably have to be done as a result of legislation.

The CHAIRMAN. Could it be said that the return based on the 31-knot ship is a fair return of capital investment?

Mr. MORSE. It is certainly not a high return. For that ship alone the return is less than 1 percent. Certainly that is not a high return.

The CHAIRMAN. That is the point. It has been clearly shown that the ship is essential to the national defense. Do we all agree on that?

Mr. MORSE. I have no problem with that at all, sir.

The CHAIRMAN. That has been thoroughly established.

Then is it fair for the Government to ask private industry to invest their money, private money, for the national defense in this specific case when you do not do it in other cases that provide instruments, and means, and tools for the national defense?

Mr. MORSE. No, I do not think it is fair.

The CHAIRMAN. So that is why we came up with this bill then.

Mr. MORSE. Yes, sir.

The CHAIRMAN. To determine just what should be done without all this window dressing we have gone through, to get right down to the meat in the coconut.

Mr. MORSE. The problem, as I see it, is we have on the Board level no alternative. It is either 30.7 or it is 28½ knots. There is nothing in between.

The CHAIRMAN. Under existing law.

Mr. MORSE. Yes, sir.

The CHAIRMAN. This is the part I want in the record, so if we go to the House we have a case to show them. You either do this to have this part of the national defense or you do not do it and you do not have it. Is that cut and dried what it is?

Mr. MORSE. It is just that simple.

The CHAIRMAN. I think we have taken a lot of the time of the committee. I know every one of these men has some other things to do as I do and we have taken up a lot of time and we have heard the facts. Now we have gotten right down to the rockbottom case. I appreciate it and I think last year you realized this, did you not?

Mr. MORSE. Yes, sir.

The CHAIRMAN. You and I had a talk about it and now it is whether the present administration, the present Congress, and the country want this ship, and the Navy has said it is necessary, and we have gotten right down to it. We would be asking in this case private industry to do more than private industry does in any other case in supporting the national defense.

Mr. MORSE. I think it is most unreasonable to expect any private concern to invest its money on a speculative venture, as shipping is, and at an optimum operation getting no more than 1 percent on return.

The CHAIRMAN. We would say that we reached the optimum in the operation of the *United States* over the past year or two.

Mr. MORSE. There is no question about it.

The CHAIRMAN. The maximum that you could possibly get out of this ship or the sister ship?

Mr. MORSE. You could not get any more.

Mr. GROSS. Mr. Chairman, has that not been under the most favorable conditions, from a commercial standpoint, of 90-percent utilization, and can that be expected to go on indefinitely?

The CHAIRMAN. That is what we have just developed.

Mr. GROSS. Particularly if we are going to subsidize the building of competing vessels in foreign countries I wonder how long this 90 percent utilization can stand up?

The CHAIRMAN. Mr. Gross, I think the dialogue between the Chairman of the Maritime Board and myself has just brought the fact right out to a conclusion. It is going to be a question whether this commit-

tee wants to report out a special bill in this instance, and I want to say this: that I am not going to be favorable to bringing in bills every time some operator wants to come in here with a bill to get a special ship built. I am not going to do it, but I have thought over this a lot and I have been convinced that we need it and we must have it, just as much as we would have any other ship in the Navy, any fighting ship. It is a question now of what are we going to do about it. I think as far as other witnesses go and other testimony goes we have just reached the top of the discussion.

Mr. TOLLEFSON. Could I ask a question,

The CHAIRMAN. Yes, sir.

Mr. TOLLEFSON. As I get your point of view, you are in effect saying that we need the ship, but present law requires you to do certain things and you cannot go beyond that law. For instance, if the United States Lines, because of the fact that they have to invest money, feel that if they put in $56 million they are not going to make a return and therefore they will not build a ship, then we are not going to build the ship under present law, is that right?

Mr. MORSE. That is the end result.

Mr. TOLLEFSON. You said that there were two alternatives, either the company will agree to build under present law, or they will not build and if they decide not to build under present law then we will have to have a change in the legislation.

Let me ask you this question: Would you oppose a special bill which would make the building of this ship possible?

The CHAIRMAN. I do not want to interrupt you, Mr. Tollefson, but Mr. Morse has been very frank about it and in the colloquy between him and me I think he answered my questions honestly and honorably. I have great respect for Mr. Morse and I know the position he is in. I do not want to crowd him too much, but you go ahead with your question.

Mr. TOLLEFSON. Let me put it this way, then. You answer it or not, as you feel that you should.

Do you know whether the Maritime Board would oppose a special bill?

Mr. MORSE. I know the Board would not oppose it.

Mr. TOLLEFSON. That is all, Mr. Chairman.

Mr. MAILLIARD. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, Mr. Mailliard.

Mr. MAILLIARD. Would there not perhaps be an alternative as against having to bring in a special bill to build a special ship? Is not there perhaps some weakness in the law itself where we would be better advised to consider a change in the act which would enable the Board to take care of a situation like this?

Mr. MORSE. There might be, but I think there is sufficient flexibility in the law itself. It is primarily a question of fact here as to what is the commercial equivalent. The United States Lines might come in and say the commercial equivalent is 28½ knots or is 29½ knots, but knowing the record of 30.7 for the last 5 years, I cannot accept that. I do not know whether I would be willing to accept it even if GAO said they would have no objection to it, because I just cannot get away from the fact that they have been using the ship at that speed.

Mr. MAILLIARD. However, is it not possible that we might have similar situations in the future and I wondered whether we ought not to give at least some consideration to an amendment to the 1936 act, perhaps that under circumstances where a vessel could not be built under the provisions of the act, but where the Secretary of Defense certified that it was essential for national defense, the Board would be given more latitude?

Mr. MORSE. I would just be speculating on that, Mr. Mailliard. I just do not know the answer.

I fear you are running into this breaking through the 50 percent ceiling on subsidy and I think I would oppose that. I think there are better ways of doing it. I do not know what they may be. Establishing what are defense features may be the answer to it.

I think the situations are going to be relatively few where a ship cannot be built under the existing law.

Mr. MAILLIARD. Then at least for the moment it would be your thinking that we should concentrate on whatever legislation is necessary to build this ship and not attempt to go beyond that?

Mr. MORSE. Yes, sir. If I were writing the checks on these things I would want to have the right to review the special few occurrences that arise rather than giving someone else authority to write a blank check on it.

Mr. MAILLIARD. That is all, Mr. Chairman.

Mr. GROSS. Mr. Chairman.

The CHAIRMAN. Yes.

Mr. GROSS. I want to compliment Mr. Morse for that last statement. I think it would be unwise to open up the present act. This ship is being built primarily as a passenger ship; is it not?

Mr. MORSE. Yes, sir.

Mr. GROSS. With the subsidiary, perhaps necessary, subsidiary, of defense, but it is being built primarily as a passenger ship?

Mr. MORSE. Insofar as United States Lines is concerned. That is their only interest, the passenger operation.

Mr. GROSS. We can build troopships, in other words, a good deal cheaper if we were building strictly a troopship; could we not?

Mr. MORSE. No, you would not be saving much money. It is the size and speed of the vessel that costs so much here. The accommodations are relatively a minor part of the cost.

Mr. GROSS. It would be a good deal cheaper from the standpoint of fixtures and everything else, would it not?

Mr. MORSE. It would be less.

Mr. GROSS. A good many million dollars less.

Mr. MORSE. It would cost some millions of dollars less.

Mr. GROSS. I do not want to belabor the point; but it is primarily a passenger ship.

Mr. MORSE. That is right.

Mr. GROSS. That is all.

The CHAIRMAN. Mr. Robeson.

Mr. ROBESON. I just have one or two questions, Mr. Morse, and I join in the expression of appreciation of your straight forward and frank approach in your answers, which are very helpful.

It appears to me that there is no reasonable expectation of going ahead with this ship soon under present conditions; is that right?

Mr. MORSE. We cannot go ahead today even though the Congress enacts this bill until we get appropriations.

Mr. ROBESON. As I understand the situation with the foreign ship competition, new ships will come out ahead of this ship to further compete with the American-flag ships in the trade.

Mr. MORSE. Yes, sir; that is true.

Mr. ROBESON. Which may make it more difficult to show the experience the *United States* has shown. I think you, in a way, agree that may happen.

Mr. MORSE. I agree that the results of the last 5 years are certainly optimum results.

Mr. ROBESON. Since there are apparently going to be some delays, do you anticipate that any foreign governments may come out with a nuclear-powered ship before we could get one out if we were to decide it was feasible or we would be in a position of competition against a nuclear-powered ship?

Mr. MORSE. I do not recall any press releases or anything of the sort which would lead me to believe that a nuclear-powered passenger ship is in the near offing.

Mr. ROBESON. Is it a fair thing to say that you have those matters under consideration and would anticipate something happening like that before it happened?

Mr. MORSE. There is always a lot of groundwork done before you hear about it in the press actually, if that is what you are referring to. It may be under consideration and I may not have heard of it.

Mr. ROBESON. The reason I asked that is because the testimony we have had leads to a reasonable conclusion that in a time not too far distant it might be much more feasible to have nuclear power in a big liner. If that is the case, then we could anticipate that some foreign competition of that kind might come out with such a powered ship.

It seems to me that we ought to anticipate that and be prepared to, if possible, come out with a flag ship of our own ahead of them.

What is your thinking on that, if you care to express it?

Mr. MORSE. Yes, sir. I think that it is premature to put nuclear power in the *America* replacement if we are talking about a ship which will be laid down within a year.

Mr. ROBESON. Within a year?

Mr. MORSE. Yes, sir.

Mr. ROBESON. Then we might say that it looks like it will be over a year. Then in the meantime consideration would be given to what was happening with regard to the feasibility of nuclear power? Would that not be reasonable to do?

Mr. MORSE. Yes. The steamship *United States* was delivered in 39 months. Some question was raised here, I believe, during the hearings, that it could not be delivered that rapidly, but Newport News delivered the steamship *United States* in 39 months. The present invitation calls for 38 months for the *America* replacement, so, assuming, the keel is laid in 1 year or assuming that the contract is signed 1 year from today, we are talking about 4 years until delivery.

Mr. ROBESON. That is what concerns me.

Mr. MORSE. We, in Maritime, are doing 3 or 4 things in nuclear propulsion. We are building the nuclear ship *Savannah*, as you know. We are having a research and feasibility study made for the installa-

tion of a boiling-water reactor in the T–5 tanker which is now under construction at Ingalls. We have just initiated a research and development program of a closed-cycle gas turbine, gas-cooled reactor. Assuming the studies are favorable, we anticipate it is going to be 5, 6, or 7 years before we can even get the first prototype built, and we think that this may be a type of reactor which will have economic feasibility, but we are not talking about just 2 or 3 years. These research and development programs take some years to develop and then when we have the reactor we would certainly have to operate it a year or so before we could prove it out. That is why I hesitate to say that we should plan the *America* replacement for nuclear propulsion.

Mr. ROBESON. I compliment you on your discretion and on your attempt to not make wild guesses or engage in speculation or wishful thinking.

It seems reasonable that perhaps the Defense would consider feasible for their purposes nuclear power ahead of it being commercially feasible.

Will there be any coordination of study in this connection so that if the Defense thinks it is feasible for their purposes, we would be prepared on the merchant-marine side to proceed in not too long a time to work out what is feasible?

Mr. MORSE. We keep close touch with the Navy developments in this field and let me assure you, Mr. Robeson, we want to be the first one to build a big passenger ship with nuclear power, but we want to do it on a basis where it is economically feasible if we can possibly do so. We do not think that the pressurized-water system which is in use today, could possibly be competitive on an economic basis today.

Mr. ROBESON. However, it might be considered of value enough to Defense that they would pick up the difference in the cost? Is that not possible?

Mr. MORSE. That is possible, but I heard Admiral Wilson testify, and inasmuch as he testified that it was their position that they thought it not necessary or desirable to have nuclear power in the *America* replacement, I question whether they would be willing to certify the extra cost as a national defense feature.

Mr. ROBESON. I was not necessarily considering the replacement of the *America*, but to be prepared to put a transport liner out for defense that had the maximum of usability for defense purposes and yet had commercial value and some return to the Government when used commercially.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. I just wanted to pursue some of the conversations about the defense features in the French liner.

Do the British put defense features in their liners? Do the *Queens* have defense features in them?

Mr. MORSE. I have no information on that, Mr. Miller.

Mr. Hoffman tells me they are strictly commercial ships as far as we know. I assume they put guns aboard during the war.

Mr. MILLER. They do not build into them the same additional speed that we do?

Mr. MORSE. Oh, no.

Mr. MILLER. Is that true for the Italians, too?

Mr. MORSE. Yes, sir.

Mr. MILLER. I have no other questions.

Mr. PELLY. Mr. Chairman, could I ask one question?

The CHAIRMAN. Yes, Mr. Pelly.

Mr. PELLY. Mr. Morse, would you comment on the statement of General Franklin that the *America* would bring $10 million?

Mr. MORSE. He has stated to me that they have had some tentative offers. Our staff made a survey under date of January 31, 1958, and they submitted a report to me on the tentative trade-in allowance of the steamship *America*. They obtained appraisals from Frank S. Martin & Son that the world market value is $9,130,000, and from Jack Pierot, Jr., & Sons, $9½ million.

It was the committee's view that the world market value is $8,900,000 and that the restricted market value is $8 million today.

Mr. PELLY. Thank you.

The CHAIRMAN. You mentioned the "committee."

Mr. MORSE. The valuation committee in maritime.

The CHAIRMAN. I just wanted to get that "committee" properly designated.

Mr. ALLEN. Mr. Chairman.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Mr. Morse, in response to Mr. Gross' question, you said that a troopship would be cheaper, but I do not think you put in an estimate of what the comparable troopship would be if it were built without commercial-passenger features.

Mr. MORSE. A very rough estimate from Mr. Hoffman is perhaps $10 to $15 million if the *America* replacement were designed strictly as a troopship instead of a passenger ship.

Mr. TOLLEFSON. That was less.

Mr. MORSE. Less than the $128 million.

Mr. ALLEN. As against that, is it true to say that the $47 million or thereabouts that the operator would put in is earned back by its commercial use over the years and except for the differential of $10 or $15 million the earnings are a saving to the Government?

Mr. MORSE. The depreciation will be picked up over the life of the ship, so that the $47 million is saved to the Government in effect.

Mr. TOLLEFSON. Will the gentleman yield there?

Mr. ALLEN. Yes, sir.

Mr. TOLLEFSON. Putting it another way, if the Government builds a troopship it pays the total cost; does it not?

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. And if it were $15 million less than this ship it would cost what? $113 million as a troopship?

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. However, it would not have that amount of money invested in the replacement; would it?

Mr. MORSE. No; depending on which ship we are talking about. If we are talking about the 28½-knot ship it would be roughly $80 million.

Mr. ALLEN. One other question. If you assume that the committee would legislate on this problem before us, so as to permit the building of a replacement for the *America*, are you prepared to recommend the form that the legislation should take?

Mr. MORSE. No. That is under consideration at the moment.
Mr. ALLEN. Thank you, Mr. Chairman.
The CHAIRMAN. Thank you very much, Mr. Morse.
Mr. MORSE. Thank you, gentlemen.
The CHAIRMAN. Mr. Roddis, Director of Reactor Development, Atomic Energy Commission, is our next witness.

STATEMENT OF LOUIS H. RODDIS, JR., DEPUTY DIRECTOR, DIVISION OF REACTOR DEVELOPMENT; ACCOMPANIED BY RICHARD P. GODWIN, CHIEF, MARITIME REACTORS BRANCH, REACTOR DEVELOPMENT DIVISION, ATOMIC ENERGY COMMISSION

Mr. RODDIS. Mr. Chairman, I am Louis H. Roddis, Jr., Deputy Director of Reactor Development of the Atomic Energy Commission. I have with me Mr. Richard P. Godwin, who is Chief of our Maritime Reactors Branch in the Reactor Development Division and also Chief, Office of Nuclear Projects of the Maritime Administration.

The Atomic Energy Commission appreciates the opportunity to appear before this committee's hearings on H. R. 9654 to authorize the construction, outfitting, and equipping of a nuclear-powered superliner passenger vessel.

A letter was forwarded to your committee on February 4, 1958, which embodied the views of the Atomic Energy Commission concerning the construction of a nuclear-powered superliner passenger vessel. It would be appreciated if this letter could be made part of the record.

The Atomic Energy Commision is unable to express an opinion as to the need for a superliner passenger vessel equivalent to the steamship *United States*. If such as vessel is required, there appear to be no technical reasons which would preclude employing nuclear propulsion. However, if it is desired that such a vessel be competitive during its useful life, it is our view that it is premature to undertake the construction of such a vessel at this time.

At the present time, the Atomic Energy Commission and the Maritime Administration are engaged in a joint program aimed at development of competitive propulsive power. We believe this objective is obtainable, although probably not before 1965. Work is continuing, both in the practical engineering and construction of the nuclear ship *Savannah* and in a research and development program to improve the nuclear-propulsion art to a point where industry can step in and build nuclear plants in privately owned vessels for commercial service. We have assumed that the Government must accept the initial high costs of constructing nuclear powerplants and the major financial risks. Once the industry has had an opportunity to study these operating nuclear ships, they will be in a position to assess the degree to which such vessels would be of value in private operation.

The United States program as presently visualized will include the engineering and development of several nuclear-propulsion plants embodying different promising reactor types. Each of these plants would be in the 20,000-shaft-horsepower range, and the prototype could be constructed either on land or in a vessel, depending upon its state of development from a safety and dependability standpoint. Thus, the program would advance stepwise to a point where multiple

plants in larger ships could be considered. Since the proposed superliner would require power in the 100,000-shaft-horsepower range or above and, thus, the use of several reactors in parallel, we would be required to accept the risks and costs associated with multiple plants before a single unit had been developed and tested.

We are in complete agreement with H. R. 9654 to the degree that it recognizes the need to construct nuclear vessels in order to avoid early fleet obsolescence and to insure a more competitive United States position in the maritime field. We would, however, urge that the approach to a large superliner with nuclear power be taken over several years, during which time sufficient development and engineering could be carried forward to determine the degree to which such a vessel could be competitive during its useful life, and to avoid the risks associated with building a number of duplicate plants prior to the availability of an operating prototype plant.

It is important to recognize that the costs associated with a nuclear superliner will be well in excess of a conventionally powered vessel at the present time. This, of course, is true of all early models of new equipment. Our studies show that an equivalent nuclear powerplant to that presently in the steamship *United States* will cost approximately $100 million more than its conventional counterpart.

In view of the complex and costly nature of the proposed legislation, with lack of assurance of achieving economic performance at this time, the Commission believes it to be premature to employ nuclear power in this application.

If, however, the Congress wishes to proceed with the construction of a nuclear-powered superliner passenger vessel, it is the Commission's view that the bill should reflect the role to be played by the Atomic Energy Commission by employing language similar to that embodied in Public Law 848, an act to authorize the construction of a nuclear-powered merchant ship for operation in foreign commerce of the United States, and for other purposes (84th Cong., ch. 792, 2d sess., H. R. 6243). That is the bill authorizing the nuclear ship *Savannah*.

Specifically, modify H. R. 9654, section 1, page 2, lines 1 through 4, to read:

> There is hereby authorized to be appropriated to the Department of Commerce, Maritime Administration, and the Atomic Energy Commission, such sums as may be necessary, to remain available until expended, for the construction, outfitting, and preparation for operation including training of qualified personnel of a superliner passenger vessel.

Also, modify H. R. 9654, section 3, page 2, lines 13 through 23:

> The Maritime Administration and the Atomic Energy Commission, in carrying on activities and functions under this paragraph may collaborate with and employ persons, firms, and corporations on a contract or fee basis for the performance of special services deemed necessary by such agencies in carrying on such activities and functions. The Administration may, for the same purposes, with the approval of the Secretary of Commerce and where appropriate the Atomic Energy Commission, avail itself of the use of licenses, information, services, facilities, offices, and employees of any executive department, independent establishment, or other agency of the Government, including any field service thereof.

That concludes my prepared statement, Mr. Chairman.

The CHAIRMAN. Any questions, Mr. Robeson?

Mr. ROBESON. No questions.

The CHAIRMAN. Mr. Alllen?

Mr. ALLEN. Thank you, Mr. Chairman.

You say on page 2 that the nuclear plant would cost approximately $100 million more than its conventional counterpart. How much would the conventional counterpart cost?

Mr. RODDIS. The propulsion plant in the *United States* is in the order of $30 million, I believe. The conventional plant is in the order of $32 million. The nuclear plant is in the neighborhood of about $130 million, the difference being about $100 million.

Mr. ROBESON. Was that $32 million on what the plant of the present *United States* cost, or on the proposed ship?

Mr. RODDIS. This is what a conventional plant would cost today, as estimated by our people.

Mr. ROBESON. Thank you.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. No questions.

The CHAIRMAN. Mrs. Sullivan?

Mrs. SULLIVAN. No questions.

The CHAIRMAN. Mr. Gross?

Mr. GROSS. One question. How fast is the price of these reactors coming down? I understand that is so.

Mr. RODDIS. Yes, sir. This is the whole point. There is no technical problem concerned with putting nuclear power in this vessel. It is a matter of economics. The price of reactors is, like almost all items in a new art, coming down. It is our guess that they will approach competitive power in this type of application sometime in about 1965. This is only an estimate, sir.

Mr. GROSS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

The next witness is the Honorable Joseph Campbell, Comptroller General of the United States.

Mr. Campbell?

I am told Mr. Campbell is on his way and is expected in a few minutes.

We will take a little recess, then, and wait for him.

Before that, Mr. Roddis, Mrs. Sullivan wanted to ask you a question.

Mrs. SULLIVAN. I want to apologize, first, Mr. Roddis, for being late coming in, but I was detained.

I think you are the one that might be able to give us some answers on this particular question. We were told it would cost approximately, and I know these figures are all approximate, $70 million if the nuclear power was put into this ship.

The CHAIRMAN. One hundred million dollars, he just said.

Mrs. SULLIVAN. The other day someone said $70 million; so from $70 million to $100 million.

Mr. RODDIS. Over the cost of a conventional plant?

Mrs. SULLIVAN. That is right.

Mr. RODDIS. Yes, Mrs. Sullivan.

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Mrs. SULLIVAN. Then they said that the core would have to be changed in approximately 3 years. Would you have any idea of the cost of the new core that would be needed in, say, 3 years' time?

Mr. RODDIS. We have not made any real studies of the probable cost of a merchant-ship-type core after the first one. Included in the $100 million is the cost of the first one. It must be something in the order of a third of that. Included in that $130 million figure, in other words, $100 million more than the conventional plant, is the figure of approximately $10 million for the reactor cores. I did not say that these reactor cores would last 3 years. Some other witness must have said so. That is one of the big uncertainties in the operating costs of any nuclear powerplant today, how long the reactor core will last. Obviously if it only lasts a year and you have a $10 million fuel cost every year you are in considerable economic difficulty.

The 3-year figure is not unreasonable to achieve with some development, but I would be a little hesitant in the kind of service that this vessel is operating in, with very high powers continually, to say that it would operate for 3 years on the very first go if we built it today.

Mrs. SULLIVAN. That was what someone had said in previous testimony, that they felt it would last approximately 3 years, and you probably cannot answer this, but I wondered, and I would like to know, what it costs to refuel a ship like the *United States* on its trip to and from Europe.

Mr. RODDIS. You mean with conventional-type fuel?

Mrs. SULLIVAN. With conventional fuel.

Mr. RODDIS. I cannot answer that just offhand, Mrs. Sullivan. I could probably compute it. There may be other people in the room who might be able to answer it offhand.

Mrs. SULLIVAN. If we could get those figures, Mr. Chairman, from someone, what it would cost the *United States* to refuel on 1 round trip and then for a comparable length of time, say, if you are going to figure a reactor would last approximately 3 years, what the fuel cost on the *United States* would be for that same period of time, just to give us a comparable figure on probable cost from the conventional type to the nuclear type, I think it would be helpful.

Mr. RODDIS. I can say this without making a detailed calculation: That within the immediate future my guess is that the nuclear cost would be at least twice what the conventional cost would be just for fuel alone. I am talking about the fuel itself in the fabricated form plus any other parts associated with it that have to be replaced.

I just say this on studies made on shore-based powerplants comparing conventional and nuclear fuel.

Ten years from now I trust the situation will be quite different.

Mrs. SULLIVAN. I realize that all the nuclear-power figures would have to be guesswork until it would be in being for some longer time, but would it be possible to ask any of the others in the room to answer that question?

The CHAIRMAN. Could you submit that for the record?

Mr. RODDIS. I can prepare an answer for the record and submit it to this committee. I am not prepared at the moment for anything but approximate figures.

The CHAIRMAN. If you will do that just so we have it, we will appreciate it.

(The information follows:)

OPERATING COSTS OF A NUCLEAR POWERED SUPERLINER PASSENGER VESSEL

At the Merchant Marine and Fisheries Committee hearings on H. R. 9654, the Atomic Energy Commission was requested to supply operating cost information on a nuclear powered superliner passenger vessel.

If the nuclear powered superliner were operated under conditions similar to the steamship *United States* on the North Atlantic run, it is reasonable to assume that the crew size would be essentially the same. Therefore, wages and subsistence costs would be identical. Similarly, nuclear plant maintenance experience shows that costs in this area will remain essentially the same as for fossil fuel plants.

Only in those areas directly associated with the nuclear plant will costs increase. Since the nuclear vessel will cost approximately $105 million more than its conventional counterpart, annual depreciation costs will be substantially greater, amounting to approximately $11,500,000 as compared to $6,400,000 for conventional vessels.

The fuel costs for a nuclear vessel will be dependent upon a number of unknown factors. Assuming a $10 million cost for one complete fuel loading (included in the $105 million figure) and 23 round trips per year, nuclear fuel costs will be approximately $56,000 daily at sea with a 1-year core life. This would compare to a $13,000 daily cost at sea for fossil fuels under similar operating conditions. If, however, we are successful in achieving core lives of approximately 3 years, these daily fuel costs would drop to $35,000 in the immediate future. This wide margin is indiactive of the uncertainties of fuel costs based upon present technology.

Since the costs associated with the operation of the steamship *United States* are administratively restricted, the Atomic Energy Commission is unable to provide these costs. However, we believe that the figures presented above are sufficiently realistic to reflect the operating cost differential of nuclear ships built within existing reactor technology.

The CHAIRMAN. Mr. Curtin.

Mr. CURTIN. I believe the testimony is that the powerplant in the new ship would be with duplicates of the conventional powerplant. You say that the cost of a nuclear powerplant would be about $100 million more. Would that be duplicate nuclear powerplants, or just one big one?

Mr. RODDIS. No, sir; I would never propose building just one single reactor in a ship of this size and importance.

Mr. CURTIN. How many do you think would be needed?

Mr. RODDIS. Somewhere in the order of 6 to 8, perhaps 4. It would depend on the detailed design of the vessel you came up with and the type of reactor you were using. I would not, I don't think, contemplate fewer than four. You might have as many as eight.

Mr. CURTIN. That is all.

The CHAIRMAN. Thank you very much.

Now we will have Mr. Campbell of the General Accounting Office.

Mr. Campbell, we are glad to have you. I believe it is the first occasion on which we have been honored with your presence.

STATEMENTS OF JOSEPH CAMPBELL, COMPTROLLER GENERAL OF THE UNITED STATES; E. L. FISHER, GENERAL COUNSEL; G. H. STAPLES, ASSOCIATE DIRECTOR, CIVIL ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE

Mr. CAMPBELL. That is correct, Mr. Chairman.

The CHAIRMAN. You may proceed, sir.

Mr. CAMPBELL. Mr. Chairman, we are pleased to appear before your committee today for the purpose of discussing legislation pertaining

to a superliner as replacement for the steamship *America*, and other proposed legislation. The superliner has been the subject of four bills, upon which you received prompt reports from our Office. On September 4 and September 5, 1957, respectively, we reported on H. R. 9342 and H. R. 9473, concerning a conventionally powered replacement for the *America*, and on January 31, 1958, we reported on H. R. 9654 which proposes a replacement of the *America* with a nuclear-powered ship. On September 5, 1957, we reported on H. R. 9432 concerning the financing of a superliner for operation in the Pacific Ocean.

At the outset, I should like to point out that we recognize the proposed bills concerning the superliner are the result of special circumstances—the background of which indicates that the United States Lines Co.'s cost of replacing the steamship *America* under existing provisions of the Merchant Marine Act of 1936, as amended, with a vessel equivalent to the steamship *United States* may not be commercially feasible. On the other hand, however, we visualize the possibility that enactment of a bill of this type may nevertheless serve as a precedent for similar proposals for the construction of vessels and their sales at fixed prices in lieu of estimated foreign cost, or for other deviations from basic provisions of the act, based on contentions of equally justifiable special circumstances. But, as stated in our reports, the question of whether the national interest requires special legislation which grants Government aid in excess of that presently provided by the act is strictly a matter of policy for determination by the Congress. However, we are extremely interested in seeing that any decisions made are made in the light of all available or ascertainable facts and are clear cut and definite, so as to reduce to a minimum any future controversy.

With respect to H. R. 9342, this bill would authorize the Federal Maritime Board to accept, in its discretion, an outstanding bid from a United States shipbuilder for the construction of a vessel equivalent to the *United States*, and to make a concurrent contract with the United States Lines Co. for the sale of the completed vessel, fully equipped and outfitted, for the fixed price of $47 million, payable under the terms and conditions provided in sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended. The difference between the construction cost of the vessel, excluding national defense features, and $47 million would be "construction differential subsidy" for purposes of the act, the provisions of which govern construction and sale of the vessel except as otherwise provided in the bill.

At the time of our report on this bill, there was an outstanding low bid of the New York Shipbuilding Corp. in the amount of $109,436,289, excluding a fin stabilization system. Certain items of outfit and equipment not included in the bid specifications were estimated to cost about $2 million, so that the February 1957 base month cost of the vessel would be about $111,500,000. Inclusion of a fin stabilization system would have increased this amount by about $2,500,000; and we pointed out that if escalation were to average 5 percent per year until delivery, and allowing something over 3 years for building, the total cost of the vessel without fins would be between $125 million and $130 million, exclusive of the costs of any changes and extras which might be found desirable. Under the terms of the proposed

bill, the cost of such changes and extras would be borne entirely by the Government, whereas under the 1936 act it would be shared between Government and owner in the construction differential subsidy ratio for all items not classed as national defense features.

In this connection, it may be that you might wish to consider placing a ceiling on the total cost of the vessel, since under the bill as now worded there is no known limit of the cost to the Government.

The proposed legislation would also preclude private financing of the unpaid balance of the owner's cost, replacing it with the provisions of section 502 (c) and 503 of the act, which provide for Government financing through preferred mortgages payable in 20 years with interest at 3½ percent; whereas, under private financing, appropriation would be necessary only for the sum representing construction differential subsidy and national defense features. Assuming a downpayment by the United States Lines Co. of about $12 million (at least 25 percent of the $47 million), the increased appropriation would amount to approximately $35 million. In pursuance of the policy followed by Maritime Administration in the past several years, recent agreements for the construction and purchase of vessels have provided for private financing with the mortgage held by the financing institution being insured by the Government under title XI of the Merchant Marine Act. We understand that the interest rates on these mortgages are considerably higher than the 3½ percent charged under the Government-preferred mortgages.

We also stated at the time of our report that we had no knowledge as to the basis on which the fixed price of $47 million was determined; but we did observe that such price in effect (1) replaces the fair and reasonable estimate of cost in a foreign shipbuilding center, and (2) would result in a construction differential in excess of the 50 percent limitation of section 502 (b) and, to this extent, would deviate from the authorization presently provided in the Merchant Marine Act of 1936, as amended. Subsequent to our reports to your committee, however, we have obtained some financial data from the United States Lines Co. relative to expected operations of the proposed ship (based on the experience of the steamship *United States*), and the effect of public versus private financing on the net return to the company. According to this data, operations of the *America* for the 5 years 1953 through 1957, including operating subsidy averaging $3,949,619 annually, resulted in average losses of $227,420 a year. On the other hand, the operation of the *United States* over a 5½ year period (June 1952 through December 1957) has resulted in an average net profit of $1,314,735, representing about a 10 percent return on capital necessarily employed, and 3.76 percent on the cost of the vessel to the company. We believe that the return computed on the basis of capital necessarily employed is more representative of the operator's actual investment return than that based on the cost of the vessel. In this connection, section 606 of the act requires that recapture shall be determined on the basis of capital necessarily employed, and the regulations of the Maritime Administration so provide.

It also appears that there are other factors not incorporated in the bill which should be resolved in order to minimize possible misunderstandings in the future. For instance, section 3 of H. R. 9473 and section 4 of H. R. 9654 provide that the construction and sale of the

vessel shall be in accordance with the provisions of the 1936 act unless otherwise provided. Section 510 (d) of the 1936 act provides that if an obsolete vessel is traded in for an allowance of credit on a new vessel and the owner continues to use the vessel, the trade-in allowance shall be reduced by an amount representing the fair value of such use. Accordingly, if the steamship *America* is to be traded in, but used by the United States Lines Co. during the period of construction of the new vessel, the 1936 act will operate to reduce the amount of trade-in allowance which may be credited to the cash payments the United States Lines Co. will be required to pay the Government during the construction period. Additionally, section 2 of the bills provide that terms and conditions of payment of the purchase price shall be as provided in section 502 (c) and 503 of the 1936 act. Section 502 (c) requires the applicant to pay interest at the rate of 3½ percent per annum on those portions of the Maritime Administration's payments to the shipbuilder during construction which are chargeable to the applicant's purchase price of the new vessel. We, therefore, assume that such interest charges are not included in the $47 million purchase price provided in the present bills.

With respect to H. R. 9473, which was the subject of our report to your committee on September 5, 1957, our comments were identical to those relating to H. R. 9342, due to the similarity of the two bills.

Likewise, our comments concerning H. R. 9654 were similar in substance to those concerning the previous bills. We stated that although nuclear-powered merchant ships may be technically feasible, it was not ascertainable by us whether the first ships would be economically competitive with conventionally powered vessels. We also stated it to be our understanding that the Atomic Energy Commission and the Maritime Administration are jointly engaged in a program to develop nuclear propulsion for commercial shipping and to construct the first nuclear-powered merchant ship; however, it also is our understanding that the program still appears to be in the research and development stage, and no doubt those agencies would be in a position to advise your committee in detail as to the results of their studies. In view of this situation, we are not in a position to advise your commttee what effect nuclear propulsion will have upon operating results.

With respect to H. R. 9432, proposing to authorize the construction and sale by the Federal Maritime Board of a passenger vessel for operation in the Pacific Ocean, we had no special comment to offer except to observe that it apparently was designed for the purpose of providing public financing under section 502 (c) of the Merchant Marine Act whereas the policy of the Federal Maritime Board in recent years has been to require private financing for ship construction with the related benefits of Government insurance under the provisions of title XI of the act.

We did, however, suggest that there be a clarification as to the intent to restrict the proposed vessel to the Pacific Ocean at all times. We call this to your attention because, in our opinion, there is no apparent reason for such inflexibility, particularly since it may become desirable in the interest of promoting our foreign commerce to operate the vessel in a world trade route or other essential service.

This, Mr. Chairman, concludes my prepared statement. However, either I, or members of my staff who are here with me today, will endeavor to answer any questions which you or other committee members may wish to ask.

The General Accounting Office, as you know, is always very happly to cooperate with you and the members of the committee, and we wish to be of all possible assistance to you.

The CHAIRMAN. Mr. Campbell, the legislation before the committee today was not promoted by the committee. It was the opinion of certain high officials of the Government that the replacement of the *America* would not be carried out under the existing 1936 act, and so last year the committee held a hearing, and the bills were introduced.

Now, this morning the Chairman of the Maritime Board has agreed with the committee, I think the record will show, that in replacing the *America* under present conditions it is asking more in behalf of national defense than the Government asks other industry in their effort in line with the national defense, so we have come to that position.

This committee is now confronted, in the light of the testimony from those responsible for the national defense, with the problem of what shall we do if the ship is essential and necessary to the national defense, which has been conclusively shown, and it has been to a degree conclusively shown that the return on the investment of the operator is so small that private capital just will not go in this field. We are at the position of asking ourselves what shall we do. It is not the desire of this committee to bring up special legislation from time to time on the construction of ships and changing the formula in the 1936 act, but this is a specific case, and it is said this is essential, so we are asking for your intelligence and your advice as to how this committee should proceed.

They are the facts that we have so far developed, and I think they will stand test by the record that has been so far recorded.

Mr. CAMPBELL. We have in our reports, and I today have reminded myself that this is a problem of precedent, and it may be that there will be many other requests or some other requests to you for special consideration; but with my short experience with the 1936 act it probably might be well to point out that there is nothing in the act about prestige. As I see it, you have been dealing in these hearings with a matter affecting the country's prestige, and that, in my mind, probably could be a principal consideration in the matter of special legislation. In other words, it would appear that justification for special legislation in this instance rests principally, if not entirely, on a determined need for the ship as an auxiliary of national defense and on the benefits that may inure to the United States in the form of enhanced world prestige and the promotion of foreign commerce.

The CHAIRMAN. Prestige?

Mr. CAMPBELL. The fact that we have a ship which is the fastest ship afloat, the fact that the replacement of it must certainly equal, or should equal, its performance appears to me not to be an economic matter, as the act would ask us to consider, nor is it a matter which has to do with the operation of the ship by private companies, as is required under the act. I say, therefore, that this may be a precedent, but whether we will ever again be faced with the need for a prestige

vessel of this kind is a question in my mind. Therefore, we may not be setting a precedent.

The CHAIRMAN. By a "prestige vessel" you mean that you disassociate that with national defense?

Mr. CAMPBELL. No; I do not.

The CHAIRMAN. Do you think national defense is part of the prestige?

Mr. CAMPBELL. I think it is probably in addition to the prestige.

The CHAIRMAN. I do not get that exactly clear. Did you happen to read the testimony of Admiral Wilson, who testified for the national defense?

Mr. CAMPBELL. No; I have not.

The CHAIRMAN. That is the strongest evidence of the necessity of this ship that has been presented to the committee, and then there is the evidence of the operator that their board would not invest money with the return that this ship would bring compared with the return of the *United States* operating at its maximum capacity.

They are the two things and these things have been well established before the committee.

Mr. CAMPBELL. I think I should have said that national defense always must be considered in any legislation having to do with the merchant marine.

The CHAIRMAN. Of course, as far as prestige goes, we are proud of the American flag flying the masthead of our ships around the world, and if we let somebody else carry our commerce and somebody else carry our passengers, I think the day would come when we would find ourselves in bad trouble.

Of course, I know it can be done in peacetime. This national-defense presentation has been the most impressive here, so what I am interested in is advice from the General Accounting Office as to just what this committee should do so as not to set a general precedent with respect to the construction of cargo vessels.

Mr. CAMPBELL. I would like Mr. Fisher to present his views.

The CHAIRMAN. Yes, sir. I know Mr. Fisher very well and respect him highly.

Mr. FISHER. Mr. Chairman, we agree 100 percent with the national-defense aspects of this ship. We think, too, that the prestige of the country is worth something, so that if you are considering whether to make an exception or to grant a little more benefit than normally comes under the 1936 act, we think both things should be considered by the committee, which would indicate a more favorable consideration of the bill by adding the two together.

The CHAIRMAN. Mr. Fisher, are the facts as have been presented before the committee financially correct?

Mr. FISHER. We have analyzed the facts that have been made available to us, Mr. Chairman. The United States Lines Co. turned over the figures that they have used. We have not gone back and audited or examined the figures that they presented to us, but on the basis of the figures that have been presented to us, I think they have been rather fairly put before your committee. We have no reason to question those figures.

We do think that of primary consideration is how you use those figures, what you are going to base your net profit on, whether the

capital invested or the total cost of the ship. As you know, in one way they will come up with a 3-point-plus percent profit, and on another basis they will come up with a 10-percent profit. Those figures we think are substantially correct, but it is important in determining the ability of the United States Lines Co. to pay their share of this ship which way you want to analyze the figures.

The CHAIRMAN. Let me ask you this, Mr. Fisher: In any other instance has the General Accounting Office had the experience of looking into an industry of this country participating in construction and the production of general defense features and have they found that the return for the private capital invested has been as little as this figure shown in the testimony here?

Mr. FISHER. Mr. Chairman, to the best of my knowledge in our other operations down there we do not have another statute where national-defense features are analyzed the same way they are under this statute. We have gone into, I would say, most all of the war contractors' plants, for example, to audit the war contracts. Under our cost-plus contracts the statute limits the amount of the fixed fee that might be given. We check that, of course, to see what it is. That could be 7 percent—generally I think it is—and in some types of contract it could be 10 percent.

The CHAIRMAN. On the capital invested by the operator, 7 or 10 percent?

Mr. FISHER. I am not sure about that. Mr. Staples, do you know?

Mr. STAPLES. It is a percentage of the cost of the contract.

Mr. FISHER. It has no relation to the capital that is being employed.

The CHAIRMAN. You mean the total cost of the contract?

Mr. FISHER. That is right.

The CHAIRMAN. What the Government invested in the contract and what the contractor invested?

Mr. FISHER. It is not that easy. The Government might even build the plant and then get a contractor to come in and produce, we will say, profits.

The CHAIRMAN. And at a 7 percent profit?

Mr. FISHER. The profit based on the cost of producing the plant. It has no relation to the capital that is employed. It is a reflection of the profit that is being made.

The CHAIRMAN. What has been the generally reflected profit?

Mr. STAPLES. In many cases, Mr. Chairman, it is based largely on the element of risk too, because in a situation such as Mr. Fisher just outlined where the Government builds the plant and then turns it over for operation to a private operator and in addition to that guarantees him the business, the margin of profit is generally considered to be very small, possibly 2 or 3 percent of the total cost of operation, because there is practically no risk assumed.

The CHAIRMAN. What has been the general profit?

Mr. STAPLES. On the usual cost-plus-fixed-fee contracts they have run anywhere from 5 percent up to about 8 percent, I believe, as about a range, based upon the cost incurred in the contract.

On fixed-price contracts with the price redetermined and all that, they have ranged over pretty wide territory, depending to some extent upon the proficiency and efficiency of the contractor in producing.

I think the Navy goes in for those incentive type contracts and there are various modifications, but I think it might be safe to say some-

where within the range of 7 to 10 percent profit on the cost of the article being produced.

The CHAIRMAN. And in this case it is about 1½ percent?

Mr. STAPLES. It depends on how you look at it. It would be more than that on capital necessarily employed.

I think that is one of the things that should be clearly understood here is how the committee wants to consider the net results in terms of investment, whether or not they want to consider it in terms of capital necessarily employed, which is the formula generally followed in the act, or whether they want to consider it, as General Franklin has advanced, on the basis of the gross cost of the vessel which the company will be paying over a period of 20 years. That is the way he has done it. They do give different results in terms of percentages.

The CHAIRMAN. And there is an element of risk in this operation, would you say?

Mr. STAPLES. There is the element of risk, yes, because under the act the operator is made presumably equal or comparable to his foreign competitor costwise, but he still has to go out and get the business.

The CHAIRMAN. Mr. Miller made the observation that there was a renegotiation in these contracts, did you not, Mr. Miller?

Mr. MILLER. Nearly all of these defense contracts which you speak of where the Government owns the plant and then guarantees a certain percentage on the contract have to be renegotiated downward later on, do they not?

Mr. STAPLES. That is right. It conceivably can go upward, too, I believe.

Mr. MILLER. It can, but it is very seldom it goes up.

Mr. STAPLES. That is right.

Mr. MILLER. The profit is great enough that you have to bring it down.

The CHAIRMAN. They have no investment whatsoever of their own, it is just operating investment.

Mr. STAPLES. In a case like that, yes.

The CHAIRMAN. Whereas in this case we have both, investment of operating management and investment of private capital.

Mr. STAPLES. That is right.

The CHAIRMAN. Mr. Tollefson?

Mr. TOLLEFSON. Speaking of the profits that contractors with the Government have been making, they earn roughly a percentage of the cost of the article or articles produced?

Mr. STAPLES. That is right, Mr. Tollefson.

Mr. TOLLEFSON. In this case we have one article and according to General Franklin's statement the return would be based not on the cost of the whole product, but on the cost of the product so far as the operator's investment is concerned or cost to him?

Mr. STAPLES. Not quite that way, sir. I believe that the way the United States Lines has made their presentation is that their percentage of net profit would be based upon $47 million cost to the company. That is an ultimate cost. It is not an immediate cost. I think the key to the difference between capital necessarily employed as used by the Government and gross investment is just that, the question of immediacy.

Mr. TOLLEFSON. I think we have the same thing in mind. He is basing his anticipated profits on the $47 million that his company would put into it.

Mr. STAPLES. That is right, whereas under capital necessarily employed that base would be roughly about $12 million or $12,100,000, or something like that.

Mr. TOLLEFSON. On other defense contracts you never use that phrase "capital necessarily employed," do you?

Mr. STAPLES. No, we do not.

Mr. TOLLEFSON. It is all on the product.

Mr. STAPLES. That is right.

The CHAIRMAN. Mrs. Sullivan?

Mrs. SULLIVAN. No questions.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. You used an expression that I think should be underlined if you allow it to remain in the record. Where you said "heck of a fix" I agree with you and I think we ought to leave it in the record.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

I notice, Mr. Campbell, that you have estimated the escalation at 5 percent a year for 3 years and everybody else seems to have done the same thing. Is that escalation estimate based on present conditions, or that wages and cost of materials are going to continue to rise?

Mr. STAPLES. I believe that that estimate of 5 percent, Mr. Allen, was a combination of information gathered by Maritime and by the New York Shipbuilding Corp. and by experience over the years. There has been escalation of so much and that escalation may be expected at, say, an overall rate of about 5 percent. It is pretty loose, I grant you that.

Mr. ALLEN. I was curious. Nobody expects a downturn when it comes to Government escalation.

Mr. STAPLES. I have not seen any contracts or prospectuses that make provision for that.

Mr. ALLEN. Getting to this business of capital necessarily employed, I confess it confuses me as to what is included.

To start with this proposal that the company will pay $47 million for the ship, about $10 million was estimated as the value of the *America*, which would reduce the initial requirements to $37 million, and I think it was estimated about $35 million would come from a 3½ percent Government loan, which would go down to $2 million still to be produced.

I would just hazard a guess that the *America* stands on the books at around possibly $2 million, just guessing at that, which would bring that in one way to $4 million of capital plus the operating capital. Is that the way you go at it, or do you use some other figures?

Mr. STAPLES. The capital necessarily employed is predicated on the thesis of how much actual cash or the equivalent thereof the operator has invested in that ship right now or as of any given date, and it is something that is flexible. It moves generally upward from year to year. As the operator pays installments on his mortgages, he acquires a larger equity in his ship, and that is really what the capital necessarily employed represents.

In the case of the proposed sister ship to the *United States*, it would be predicated on a downpayment of approximately $11,750,000 or something like that, which is 25 percent of the $47 million, plus roughly $400,000 or so as necessary working capital that the operator must have in order to carry on the day-to-day business of that ship. That would represent the capital necessarily employed.

The following year that CNE would go up, because the operator would have presumably made a payment on his mortgage and would thereby have acquired a larger equity in the ship.

Mr. ALLEN. Take the *America*, which has a cash value if sold at somewhere between $8 million and $10 million, or a turn-in value to the Government of $10 million, something of that nature, and stands on the books, as I say, just assuming my example at $2 million, if you turn the *America* in on the new ship, how much capital is supplied by that turn-in?

Mr. STAPLES. Bringing in the question of the *America*, the trade-in of the *America* is in a sense a part of the whole deal, because it will be applied against the $12 million downpayment.

Mr. ALLEN. Would you consider the *America* as $10 million in cash, or $2 million in cash?

Mr. STAPLES. It would be $10 million in cash, because that is what would be allowed as a trade-in by the Government.

Mr. ALLEN. As a matter of producing capital, however, would it not be true that the operator has produced an asset on its books that is worth $2 million?

Mr. STAPLES. That is right. It is just the same as any other article. With the condition of the world market the way it is, regardless of what he paid for his ship, the presumption is that he could get 10 or 11 or 12 million dollars for it if he sold it on the open market.

Mr. ALLEN. I suppose there would be a profit of $8 million on that, then?

Mr. STAPLES. Something like that, yes, but the $10 million that he would get would apply against his downpayment, so that in effect there would be a net out-of-pocket downpayment of something less than $12 million.

Mr. ALLEN. Would that mean that in this deal the United States Lines would actually be contributing only $4 million of capital that had been put into the company?

Mr. STAPLES. If you assume that the trade-in allowance will be about $10 million and assuming again your $47 million cash price to them, their actual cash investment would be somewhere in the neighborhood of about $2 million.

Mr. ALLEN. You say the equity increases as the years go on and the payments are made. Is it not true that as the payments are made, the ship is reduced in value by almost exactly the same amount on account of the fact that the depreciation is on a 20-year basis and the payments are on a 20-year basis?

Mr. STAPLES. Depreciation would be reduced even more than the annual payments.

Mr. ALLEN. A quarter of the depreciation would be an additional investment.

Mr. STAPLES. That is right.

Mr. ALLEN. That gets back to this point: Is it not true that although it may be earning 10 percent on the capital necessarily em-

ployed, the risk of bad years is based on the expense of the capital actually received with the result that the risk to the operator is greater than is ordinary for the amount of capital that he has employed?

Mr. STAPLES. The mortgage is guaranteed. The right of action against the company would be limited to the vessel itself.

Mr. ALLEN. That is true. He would, however, take the risk of his 25 percent of the value going in and he would take the risk of losing a rather valuable business asset of reputation.

Mr. STAPLES. That is right, sir.

Mr. ALLEN. This brings me to this point: Is the rate of return that he gets sufficient, in view of the business risks that are involved, to bring private capital into the building of this type of facility?

Mr. STAPLES. Mr. Allen, I guess that would be largely a matter of opinion which could differ among different people. It is a question of whether or not you would consider a return of 4 or 4½ percent or 5 percent on capital necessarily employed—that is, on the amount that the operator has invested in it—sufficient to justify the risks that are involved.

There may also be a difference of opinion as to the extent of risk involved. I do not know.

Mr. CAMPBELL. As a practical matter, Mr. Allen, if the financing institution is going to receive about 5 percent on a guaranteed first mortgage, obviously, the equity holders in the company would probably expect more than 5 percent.

Mr. ALLEN. I know they would expect more if they were going to make the investment. I am trying to find out if they are going to get more on this particular transaction. To carry the question a little further, if the committee decides that this is a type of venture that is not attractive to private capital in the committee's opinion, can you see any justification for a criticism of that judgment with a clear opinion that we ought to stay out of it and let the private financing go ahead?

Mr. CAMPBELL. I am not sure of the figure on public financing at 3½ percent or what the return would be on this new vessel.

Let me check.

That would make the return 6.8 percent with a 3½ percent mortgage. Is that excessive?

Mr. ALLEN. I asked you first?

Mr. CAMPBELL. I am asking myself. I do not think that I could say, Mr. Allen, whether it is excessive or not.

Mr. ALLEN. It is purely a matter of judgment with the committee?

Mr. CAMPBELL. That is correct, yes, sir.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Who would be in a better position to answer that question than the General Accounting Office from practical experience?

Mr. CAMPBELL. Within the Government itself?

The CHAIRMAN. We are just trying to get information.

Mr. CAMPBELL. I do not know what agency of Government.

The CHAIRMAN. As a business venture and from your experience in business, what would be your view, disassociating yourself with the Government?

Mr. CAMPBELL. I think, Mr. Chairman, that I would have to know all about the operations of the United States Lines to answer that question properly.

The CHAIRMAN. They are available to your examiners.

Mr. CAMPBELL. I do not think that we have access directly to the company's records. The General Accounting Office works through the Maritime Office for such figures and I do not doubt that we could get them from them.

Mr. Staples tells me that we do get the information from the Maritime if we ask for them for the entire company or for a special operation.

Mr. STAPLES. Mr. Chairman, I wonder if we do not have to consider in all of this thing just how much more the United States Lines, who are in the best position to know, attaches to just the idea of having this ship and operating this ship and what effect it may have on their other operations.

In other words, what I am thinking about is that in many instances an industrial company will deliberately engage in manufacturing and marketing a product which has, say, less profit angle to it than other products which they produce, but which has other intangible benefits.

I just advance that as a means of emphasizing this thing is not a nice hard and fast thing that you can wrap up in a package and make decision on.

Mr. CAMPBELL. Mr. Chairman, Mr. Fisher draws attention to the act itself, and I would like him to comment.

Mr. FISHER. I do not think we can sit down here and give a hard and fast figure on what would be a good profit. What is good this year might not be good next year, and I suppose over a period of time one ought to offset the other. But the act itself recognizes that they might make a profit up to 10 percent because it is only the excess profit over 10 percent that they have to split with the Government, the recapture, so that recognizes that they might make up to 10 percent and keep it all.

The CHAIRMAN. So you have agreed here it is 6 percent, which is 4 percent less than the act itself would permit?

Mr. FISHER. I do not think we have agreed on anything, but in one way these figures are used it would come out to 6 percent roughly, and of course there would never be any opportunity for the Government to recapture the excess over 10 percent. That might be lower than the committee would want to take in anyone's hands.

The CHAIRMAN. Have you a question?

Mr. ALLEN. Just one question. Is this a fair statement: If the committee comes to the conclusion that the ship ought to be built fairly immediately, it takes some legislation to fix the judgment of the committee or will have the necessity of delay for investment as to whether or not it is a good commercial transaction, which might be a rather long delay.

Mr. CAMPBELL. That is correct, Mr. Allen.

Mr. ALLEN. If you were a businessman you would want a rather thorough investigation, which I presume would take some time.

Mr. CAMPBELL. I think that the lines must have very competent accountants and I assume other Government agencies have had contact

with them, such as Internal Revenue, and I am not sure that it would take too much time; some weeks, I suppose.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mrs. Sullivan?

Mrs. SULLIVAN. I have no questions.

The CHAIRMAN. Mr. Mailliard?

Mr. MAILLIARD. Mr. Campbell, can you or any of your staff with you here tell me what the United States Lines' position is with regard to the *America* if they do not replace her? Are they free to dispose of her after their contract with the Government expires?

Mr. STAPLES. They are free to dispose of her, but there are strings in the act by which first of all, they could not sell her in the foreign market without the approval of the Maritime Administration. Whether the Maritime Administration would give such approval, I don't know.

Mr. MAILLIARD. Because presumably, if this is like most of the contracts that we have heard about her value under the restrictions that are on her would be considerably less.

Mr. CAMPBELL. That is correct.

Mr. STAPLES. There is a restricted world market and an unrestricted world market price which I believe the Maritime Administration uses in arriving at its values.

Mr. MAILLIARD. If they can sell her for $10 million, which they seem to think they can, they presumably stand to make a fairly good capital gain out of it, but if no consent were given to disposing of her to foreign-flag operations that profit probably would not be realized, is that correct?

Mr. STAPLES. If they decided to go forward with it and it might be traded to the United States Government, the United States Government may very well take it on trade-in and add it to the reserve fleet.

Mr. MAILLIARD. On trade-in, but if it is not replaced, then presumably the United States Government would probably not pay the world market value for her. If there is no consent given by Maritime what is the United States Lines' position with regard to this ship? What can they do with it?

Mr. STAPLES. Their subsidy contract, I believe, expires in 1960 and I believe there is a provision in there that sometime in 1958 there has to be an agreement between Maritime and the United States Lines regarding the replacement of the *America*. What will happen if they do not come to an agreement, I don't know.

Mr. MAILLIARD. We were told by a previous witness that the United States Lines under its operating contract for operating the *America* is not under any legal obligation to replace it. That was stated as a fact, I believe.

Mr. STAPLES. I believe that is true, Mr. Mailliard, but I believe current with that their operating differential subsidy contract would likewise expire and it would be just the same as if they got out of that particular business.

Mr. MAILLIARD. What I am trying to find out is what could they do with the ship under those circumstances?

Mr. STAPLES. They could not do anything with the ship other than to sell it.

Mr. MAILLIARD. Can they sell it?

Mr. STAPLES. With the approval of the Maritime Administration they can sell it foreign. They can sell it, I believe, to other United States citizens, too.

Mr. MAILLIARD. If they cannot operate it without an operating subsidy contract, presumably nobody else can, either.

Mr. STAPLES. I would say that is true.

Mr. MAILLIARD. How would they get rid of it then if everybody just sits tight? Can they get rid of it without permission? I am trying to get the facts, but as I get what you say, they could only sell to another United States owner, American citizen owner, unless they get special permission.

Mr. STAPLES. That is right.

Mr. MAILLIARD. In other words, they sell it for scrap, that is all, because no other American citizen could operate her, if they couldn't, so she has a scrap value unless some agreement is reached. Is that about the size of it?

Mr. STAPLES. I would think so, that is right, unless the Board or the Administration exercises its right. If no agreement is reached I believe that they have the authority to extend the subsidizable period of operation of that ship beyond the 20 years. I believe they have that authority in the event that no agreement eventuates out of it, and assuming the United States Lines is willing to continue to operate it beyond the 20-year period.

Mr. MAILLIARD. That is all, I believe, Mr. Chairman.

The CHAIRMAN. Mr. Gross?

Mr. GROSS. Mr. Staples, what do you mean by a restricted and unrestricted world market? Let me try to brief it a little bit. Do you mean this ship could not be sold to China or to Russia or something of that kind?

Mr. STAPLES. That is right, yes.

Mr. GROSS. That would be the restricted foreign market?

Mr. STAPLES. That is right.

Mr. GROSS. It could not be sold?

Mr. STAPLES. And also, that the provision that it could not operate in unrestricted areas of the world, too.

Mr. GROSS. Mr. Campbell. I am glad you underscored the prestige value. I think we are in agreement that certainly, if we are going to build a ship of this kind it ought to contain national defense features.

I believe in the defense of this country, but I cannot help but wonder and speculate as to what other foreign countries are interested in the defense of the so-called free world. For instance, we heard this morning that the *Queens* are not built with defense features.

There is presently a $78 million French ship being built, so we are told, without any defense features in it. I wonder who else is interested over the world. Do you have any comment on that?

Mr. CAMPBELL. No, I haven't, Mr. Gross.

Mr. GROSS. I wonder, too, who is putting up the money for this $78 million French ship that is being built, in light of the fact that we have given billions of dollars to France in recent years and only the other day, I repeat again, they walked out of Washington with $665 million. I wonder how we can afford to build a superliner and at

the same time subsidize the building of a French, liner to compete with us.

I wonder how long we can engage in that kind of a rat race. Do you have any comment on that?

Mr. CAMPBELL. No, I haven't.

Mr. GROSS. Thank you.

The CHAIRMAN. The counsel of the committee, Mr. Drewry, has some questions.

Mr. DREWRY. Mr. Campbell, I want to try to clear up something that came up Friday, I believe it was. One of the Commerce witnesses mentioned that there had been an informal discussion or decision from the General Accounting Office on this question of what is commercial speed, whether it is 28½ or 30.7 knots. Could you give me some answer to that?

Mr. CAMPBELL. I believe our General Counsel, Mr. Fisher, discussed that with one of the counsel of Maritime and Mr. Fisher will tell you what he has said.

Mr. FISHER. Yes. I was approached, Mr. Drewry, about the question of whether the General Accounting Office would approve a 28½-knot feature as being the commercial speed and anything in excess of that as being national-defense features, and I just said "No." Offhand, we would not, as the situation stands now, because I do not know where the 28½ knots comes from and why that figure is selected. I do know that the Maritime Administrator apparently has decided on 30.7. I do not think we are in a position to say it ought to be 28½ if he thinks it is 30.7 after considering it, but the basic theory behind our informal opinion was just simply this:

We do not want to pick any figure out of the air and say, "yes, we agree with that." We think that the people responsible for the program should analyze the facts and the figures and come up with their own determination. Then we would be glad to say whether that sounds reasonable to us.

Mr. DREWRY. You would have the same position about 30.7, then, would you not?

Mr. FISHER. Yes, or 10, or 50. I would not want to just pick any figure out of the air and say yes, we will agree with that. I would want to see the figure that has been agreed upon by the responsible people and the backup material for that to determine whether we thought it was reasonable.

Mr. DREWRY. Would you indicate the type of backup material that would be necessary?

Mr. FISHER. Of course, to me the most important thing is the use that the vessel is going to be put to, the competition it has to meet and the actual experience of the *United States* over the last 5½ years.

Mr. DREWRY. There is no question about it that the *United States* has been operating at 30.7, but the point has been raised that in proceeding with another ship there is no particular advantage to having, from a commercial and competitive standpoint, another blue-ribbon winner because you can have but one blue-ribbon winner at a time, anyway, and the 28½-knot ship was said to have accomplished the 2 weekly turnaround, which is the basis of scheduling.

I just have been wondering whether the mere fact of operation at 30.7 is proof that that is the commercial speed. What objection

would there be in American citizens riding on 2½ knots of defense features, or maybe that is this prestige factor that Mr. Campbell touched on?

Mr. FISHER. That very well could be and, of course, we have no quarrel if the committee decides that 28½ is proper. All we want is that if this is all aired, the committee knows what is being approved, so that we do not have a hassel in the years to come as to just what is going on.

We do understand that the United States Lines intends to operate this at 30.7. We think they may have to do that to compete with this new French ship that is being built. They want a ship that will go that fast. I think those are all matters that have to be considered.

Mr. DREWRY. However, as far as you are concerned right now you do not have any position on one speed as against another.

Mr. FISHER. That is right.

Mr. DREWRY. Just one more question. The bill for the sister ship to the *United States* was introduced by the chairman and other members of the committee. It includes the figure $47 million. I feel certain that when the bill was introduced with that figure in it there was no feeling on the part of the authors of the bill that they knew personally whether that $47 million was correct or high, or low, and expected that the correct figure would be given if the committee was going to proceed on that basis.

In your statement on page 2 you bring up the point that I have in mind. You say:

> However, we are extremely interested in seeing that any decisions made are made in the light of all available or ascertainable facts and are clear cut and definite, so as to reduce to a minimum any future controversy.

We all remember that there has been controversy in the past. This is a unique ship, and I am wondering if it wouldn't be helpful to the committee if your office would consider the available figures and present them to the committee, as to how these different operating figures of the United States Line Co. were worked out. I believe you said, Mr. Campbell, that you did not think it would necessarily take very long.

As a matter of fact, it would be more a matter of verification than making a complete audit, as I understand it.

Mr. CAMPBELL. That is correct.

Mr. DREWRY. What would be your feeling about that? I believe it has been mentioned that frequently you do not get into these things until after they have been done, but this is sufficiently important and unique to justify something that is a precedent.

Mr. CAMPBELL. Mr. Drewry, would you think that 2 weeks was a long time for us to look into these figures? I think we could do it in about 2 weeks.

Mr. DREWRY. It wouldn't seem to me——

Mr. FISHER. Mr. Drewry, I would want the committee to understand that we have no legal right to go into the United States Lines' office and see those figures. I assume they would let us; but if we attempted to, it would have to be conditioned on their permission.

Mr. DREWRY. It would certainly be conditioned on that; yes, sir.

Mr. ALLEN. Would you yield?

Mr. DREWRY. Yes, sir.

Mr. ALLEN. If, at the time you submit these figures you could make the assumption that the committee would like to take such action as to result in the prompt construction of the ship even if legislation were necessary, could you also furnish us with your suggestion as to what form the legislation should take?

Mr. CAMPBELL. We will be glad to.

Mr. ALLEN. Thank you.

The CHAIRMAN. Do you want to include the other ship in this request? We are considering, Mr. Campbell, two bills here. One provides the ship that you mentioned on the Pacific coast, and I think your point is well taken in your statement that the ship should not be confined forever to one area.

I think you are wholly right in that. Could you give us some information on the Pacific operation, also?

Mr. CAMPBELL. Yes, sir, we will attempt to do that.

The CHAIRMAN. The committee will adjourn until tomorrow morning at 10 o'clock, at which time we will have Admiral Mumma and Mr. Casey before the committee.

Thank you very much Mr. Campbell.

(Whereupon, at 12:25 p. m., the hearing in the above-entitled matter was recessed, to reconvene at 10 a. m., on the following day.)

SUPERLINER LEGISLATION

TUESDAY, FEBRUARY 11, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 219, Old House Office Building, Hon. Herbert C. Bonner (chairman) presiding.

The CHAIRMAN. The committee will come to order.

The first witness this morning is Admiral Mumma.

STATEMENT OF REAR ADM. A. G. MUMMA, CHIEF, BUREAU OF SHIPS, DEPARTMENT OF THE NAVY

Admiral MUMMA. Good morning, Mr. Chairman and gentlemen.

The CHAIRMAN. You may proceed, Admiral.

Admiral MUMMA. Mr. Chairman, I am very happy to be here this morning in a dual position as Chief of the Navy's Bureau of Ships and as the coordinator of shipbuilding, conversion, and repair, for the Department of Defense.

As Admiral Wilson has indicated, the Navy strongly favors the construction of a superliner passenger vessel equivalent to the steamship *United States*. Authority for this project is provided in H. R. 9342, H. R. 9473, and H. R. 9654. The Navy also supports construction of a new passenger vessel for operation on an essential trade route in the Pacific as authorized by H. R. 9432. These new ships would improve the commercial position and enhance the mobilization capabilities of the American merchant marine.

In accordance with the requirements of the Merchant Marine Act of 1936, as amended, the Maritime Administration already has submitted plans and specifications for a passenger liner to replace the steamship *America*, to the Navy Department, for approval. This new ship, with minor modifications, is of the same basic design as the *United States*.

We have determined that the proposed vessel will be another potential troopship of outstanding reliability, range of action, safety, troop capacity, and comfort. It will serve as a most valuable naval auxiliary in time of war, besides offering unexcelled passenger accommodations in peacetime. The Navy has approved the plans and specifications and has certified that the proposed ship will be suitable for speedy and economical conversion into a military or naval auxiliary in time of war or national emergency.

The Navy will certify as national defense features those changes necessary to meet military requirements when the extent to which

such changes exceed commercial requirements has been determined.

Defense features of the *United States* certified by the Navy consisted generally of improvements in speed, radius of action, capacity, and safety. These improvements greatly enhanced the value of this ship as a naval or military auxiliary. The *United States* has a reserve speed substantially above that normally required for commercial needs and additional fuel capacity which increases the cruising range. These features increase protection against attack and help to achieve the maximum effectiveness in transportation of troops in wartime.

The current plans of the replacement ship of the steamship *America* also incorporate, like the *United States*, deadweight capacity to accommodate a larger number of troops and their equipment and to provide them with necessary services. A high standard of compartmentation, insuring a substantial margin of buoyancy, is a part of the new ship, as in the *United States*, to reduce vulnerability to hazards of the enemy and the sea and to improve overall safety.

Other rearrangements include changes to provide increased fire and shock resistance and thus reduce the possibility of damage to essential machinery by enemy attack. These and other features are expected to enhance the military value of this ship besides reducing the work, cost, and time for conversion of the ship into a military or naval auxiliary in event of a national emergency.

Although business arrangements incident to acquisition and sale of the new superliner are a matter primarily under the jurisdiction of the Federal Maritime Board, the Navy questions the desirability of the precedent established by H. R. 9654 and H. R. 9342 in fixing a price for the sale of this ship by law. It is recommended that the cost to the operator and the amount of construction differential subsidy be determined in accordance with existing statutory procedures.

H. R. 9654 provides that this superliner passenger vessel be equipped with nuclear propulsion in order to render it competitive during its useful life and to prevent premature obsolescence. On the basis of the Navy's current experience with nuclear powerplants, the cost of installation and operation of shipboard nuclear powerplants is not currently competitive with the cost of powerplants using conventional fuel and is not expected to be competitive for a number of years.

I might add parenthetically there, Mr. Chairman, that our current program in large nuclear-propelled surface ships will serve as a very valuable forerunner of ships of commercial type in the development of these nuclear powerplants. We can afford in the Navy, because of the military advantages, to pay this increase in premium so that we feel that with our trail blazing in this area it will make the powerplants more economic and cheaper in the future and will help a great deal in the commercial utilization of nuclear power for such things as shipping.

In the future, then, when nuclear-reactor plants can be constructed to provide power at cost comparable to those of conventionally powered plants, the reactor plant we are now considering to be installed in the superliner passenger vessel would be obsolescent. Moreover, in a large passenger ship designed for point-to-point transfer of passengers and troops, the extended cruising range derived from nuclear pro-

pulsion would have insufficient mobilization value to justify the additional cost. I, therefore, recommend that the nuclear power be eliminated from the replacement vessel of the *America*.

Section 3 of H. R. 9654 provides that the Maritime Administration, in carrying on functions and activities under the act, may avail itself of the use of licenses, information, services, facilities, and employees of any other agency of the Government.

I am sure you remember, Mr. Chairman, that in connection with the nuclear icebreaker we made a similar comment in connection with this in recommending that this provision be amended to require prior approval of the agency or agencies from which assistance would be sought.

I recommend that this provision be amended to require prior approval of the agency or agencies from which assistance would be sought. Otherwise, inclusion of this provision might be construed to give construction of the new superliner an overriding priority over all other projects regardless of nature or priority.

Construction of these two new passenger ships would be a highly significant step toward combating obsolescence in our active merchant marine. This work would also help to satisfy a pressing need of the private shipbuilding industry for additional new construction of passenger and cargo ships.

As you know, most of the merchant ship construction now underway in private yards consists of tankers. More than two-thirds of the ships underway as of January 1, 1958, were in this category. Tanker construction is of short duration and is, of course, of limited usefulness in maintaining the diverse shipyard skills which will be essential in time of emergency.

Although our country's private yards now have a fair workload, including construction and repair of numerous combatant ships for the Navy, this situation will rapidly deteriorate unless new merchant ships in substantial numbers are ordered from year to year.

Thank you.

The CHAIRMAN. That concludes your general statement?

Admiral MUMMA. Yes, sir.

The CHAIRMAN. On page 3, Admiral, you recommended that the cost to the operator and the amount of construction differential subsidy be determined in accordance with existing statutory procedures.

Admiral, we have reached the point where it is agreed on both sides that this is impossible.

Admiral MUMMA. I may add that this is a little gratuitous on our part, Mr. Chairman. Frankly, the cost features of this ship are none of the Navy's business.

The CHAIRMAN. It is the Navy's business because I appreciate the Navy's great interest. Admiral Wilson's statement is one of the strongest that we have had before this committee and the committee appreciates the support that the Navy has given to this matter and the fact that the Navy realizes the urgent necessity for such a ship as this.

As I say, we have reached the point where both sides agree the private investor has shown clearly the lack of interest in putting private capital in a venture of this type which certainly can be said

to be 50 percent in support of the national defense and 50 percent in support of our international commerce.

Private investors cannot see putting their money in something that brings so little return. With that thoroughly understood, what would be your recommendation to this committee with respect to private legislation, if my view is correct?

Admiral MUMMA. In view of your statement, Mr. Chairman, I do not believe I have a recommendation in connection with the financial aspects of this proposition because of the fact that I would be speaking in an area that is fundamentally the province of the Department of Commerce and of the Maritime Board and the Maritime Administrator. With your wise guidance and counsel, I am certain you will be able to solve the financial aspects of this problem.

The CHAIRMAN. However, you have complimented Admiral Wilson's statement. Your statement is in line with his. Would you say it is essential to the desired operation of the Navy in an emergency that these ships be in existence?

Admiral MUMMA. I certainly would agree to that, Mr. Chairman. I would say very strongly that during the last war the *Queens* were essential to our ability to transfer large quantities of troops across large bodies of water. The existence of the *United States*, and of her sister ship, and of a somewhat similar vessel for the Pacific, would be invaluable to the Navy.

The CHAIRMAN. So with the facts as I have related them to you, would you say, then, it is absolutely necessary that this committee should find some way to build these ships at this time?

Admiral MUMMA. I would certainly agree with you, Mr. Chairman.

The CHAIRMAN. There is one question about speed. You mentioned something about the speed of the vessel. Is that more essential to the national defense than it is to the normal commercial operation of the vessel?

Admiral MUMMA. Yes, sir.

The CHAIRMAN. The answer is "Yes," then, that the speed should be heavily weighted in the contribution to the national defense?

Admiral MUMMA. Yes, sir. It is becoming increasingly obvious that the submarine threat is increased by the increased speed of submarines.

The CHAIRMAN. We heretofore agreed on a normal commercial speed of 28 knots and, of course, the supership has cruised at 31 knots. The extra speed is there, we might say, but the reason for its being there is primarily for the national defense, is it?

Admiral MUMMA. That is correct, sir.

The CHAIRMAN. Then the difference between 28 and 31 should be considered as a national defense feature?

Admiral MUMMA. That depends upon the certification by the Maritime Board and the Maritime Administrator.

The CHAIRMAN. Turning it around another way, if we built the ship at 28 knots, the Navy would prefer 31?

Admiral MUMMA. Actually, sir, defense features up to and above 33 knots were certified on the *United States*.

The CHAIRMAN. Then all over 28 knots, which is the recognized commercial speed and is the speed of the *Queens*, you give predominant weight to as a national defense feature?

Admiral MUMMA. We are only required, by the operation of the Merchant Marine Act of 1936, to take into consideration speeds in excess of those considered by the maritime authorities in excess of commercial requirements and it is up to them to certify what the commercial requirements are, sir.

The CHAIRMAN. However, the commercial requirements would not be the desired requirements for you if they are 28.

Admiral MUMMA. We would not quarrel with the Maritime on what their commercial requirement determination was, Mr. Chairman.

The CHAIRMAN. Would you prefer the 31 knots?

Admiral MUMMA. Obviously. We would prefer that the speed be above 33 knots, as indicated by the previous testimony on the *United States*, by last year's testimony on this same vessel, and my current statement indicates that we are very interested in increased speed over the commercial requirements.

The CHAIRMAN. If you are then, that must be a part of the national defense features.

Admiral MUMMA. It certainly becomes one; yes, sir.

The CHAIRMAN. Mr. Tollefson?

Mr. TOLLEFSON. Admiral, I think that every member of the committee would like to believe that the ship could be built under existing law, but it has become somewhat apparent that we are not going to be able to do it.

I am glad you referred to this proposed vessel as a naval auxiliary. It has been my feeling all the time that too many people have lost sight of the fact that these vessels are auxiliaries to the defense effort and are very essentially so during time of emergency.

Would you share the view that if actually the ship cannot be built under existing law, then we must find some means to build it because it is essential to our national defense effort?

Admiral MUMMA. Yes, I would agree with that, Mr. Tollefson. I would certainly think so.

Mr. TOLLEFSON. You think the ship certainly ought to be built?

Admiral MUMMA. We ought to find some way to do this. If the existing law is not adequate, and of course you gentlemen know a lot more about that than I do, I would certainly think we should make some provision.

Mr. TOLLEFSON. There are some troop ships in lay-up, are there not?

Admiral MUMMA. Yes, sir

Mr. TOLLEFSON. Are some of them fairly old?

Admiral MUMMA. Yes, most of them were built during and before World War II, sir.

Mr. TOLLEFSON. Since they have been in lay-up, has there ever been any consideration of the advisability of scrapping any of them?

Admiral MUMMA. We have hung pretty tenaciously onto those ships because they are about all we have.

Mr. TOLLEFSON. In other words, you consider them so important that you would not think of scrapping them even if they are getting a little old?

Admiral MUMMA. No, sir; we would not.

Mr. TOLLEFSON. You keep them there in lay-up just about for the same reason that you keep some of your combat vessels in lay-up, because you might need them in the event of an emergency.

Admiral MUMMA. That is correct. As you know, we are finally agreeing to some reduction in the Libertys in the reserve fleet. The Maritime has asked us for concurrence in that and we have agreed to some reduction in the most obsolete and the most worn out of the Libertys, but that does not include these vessels you are discussing, sir.

Mr. TOLLEFSON. Could you tell us something about these troops ships? Do they have satisfactory quarters, shall I say, for taking care of the troops when they are being transported?

Admiral MUMMA. In comparison to the *United States* or this specific liner they would be nowhere near as satisfactory. In other words, these two ships we are discussing this morning are by far the finest troop ships that one could conceive and they carry for their size and at high speed a much larger amount per ton than do the other ships that you are referring to in the reserve fleet.

Mr. TOLLEFSON. Would some of those troop ships be more vulnerable to attack by submarines than the proposed new ships?

Admiral MUMMA. Yes.

Mr. TOLLEFSON. You would say the safety factor is of some considerable importance?

Admiral MUMMA. It certainly is to us in carrying troops and the commercial factor in safety factor in peacetime is of vital importance.

Mr. TOLLEFSON. My colleague suggested that it is fairly important to the troops that are on the ship.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Robeson?

Mr. ROBESON. Admiral, going back to the speed desirability, if the large ships such as we are considering in this replacement were under 30-odd knots, it would make a considerable difference in their desirability for the purposes you have in mind for them, would it not?

Admiral MUMMA. Yes, sir. The ability of these other ships in the reserve fleet to operate with impunity against the current submarine menace would be much, much less than would that of these two new ships we are discussing.

Mr. ROBESON. Then you would not recommend that we build a large ship of this type and have it down below 30 knots, would you?

Admiral MUMMA. We would strive for the highest speed that was reasonably obtainable in both of these ships from a defense point of view.

Mr. ROBESON. Instead of having a ship commercially satisfactory at a speed, say, of 28 or below 30, would you consider the cost to the Government justified to have the high-speed features to bring it up above 33?

Admiral MUMMA. Yes, sir. This was evidenced in the case of the hearings on the *United States* and subsequent vessels, and the result has been that we have not deviated from our previous view that we wanted the speed in that ship and we would want the similar speed in her replacement.

Mr. ROBESON. Then with regard to any future large liners that we are talking about, that is the primary consideration this committee should have in mind, is it not?

Admiral MUMMA. Yes, sir. I think speed is one of the most important features in the ship.

Mr. ROBESON. To authorize one that had a lesser speed than required would really not take into consideration the full desirability for the defense?

Admiral MUMMA. That is correct, Mr. Robeson.

Mr. ROBESON. The reason I asked that is it seems to me, under present circumstances and the situation we are in, any of the expensive large liners that this committee authorizes and promotes the building of should necessarily have high speed.

Admiral MUMMA. I think the Navy is probably more interested in high speed than any other activity of the Government at the present time, and this has been the case with cargo ships and with all the ships that are being built. We are always pressing for more speed.

Mr. ROBESON. Thank you. Thank you very much.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

Admiral, I would like to pursue that question of why this is a ship that we might construct without following the provisions of the present law. I have been trying to establish in my own mind some criteria for judging when we have a special case.

I suppose if we take an inventory of what we have and what we need, and learn our deficiencies, that has a bearing on whether it is a special case. If we take a ship that departs so far from commercial needs as to have, for example, the evaporator capacity for possibly five times its ordinary passenger and crew list, and so forth, we have another occasion of a special case, and the speed factor being far in excess of commercial requirements.

Could you give us the benefit of some really good thinking on what is a special case which would cause us to depart from the ordinary provisions of the Merchant Marine Act, and particularly whether this steamship *United States* and whether the proposed American President Lines ship come within the category of special cases permitting a deviation from the usual law?

Admiral MUMMA. Mr. Allen, it has been now nearly 9 years since the *United States* was at the same stage that this ship is of having been certified and defense features being discussed, and that activity at that time stood out as a special case. There was no question about it. It received a great deal of attention from many points of view, not only in the Congress, but in the General Accounting Office and otherwise, and it was a sufficiently unique ship in our merchant marine that I am sure it qualifies as a special case under your definition. And the fact that 9 years has elapsed before we have another such special case arising, which is a sister ship concept, I would say that possibly special legislation might be indicated if we have been hampered by existing legislation up to now.

I am sure you gentlemen are approaching this thing with adequate caution from a point of view of not opening the barn door and letting everything out.

We have an administrative problem and this appears to be a special case, as you say.

Mr. ALLEN. I have come to at least tentatively the conclusion that we have included so much in the *United States* and its proposed

sister ship as to cause it to have features that are not entirely necessarily commercial, but which increase its cost beyond the point where it is attractive to private capital that can go elsewhere for higher reward. Then it gets to a matter of determining whether we should go into some type of special financing for this ship and if so, do we or do we not do the same thing for other ships?

Where do you draw the line, is what I am trying to get at.

Admiral MUMMA. The Pacific liner is within 90 feet, I believe, of being the same size as the other ship we are talking about, and somewhat lower in speed at the present concept, but the question as to whether it would be also included as a special case I think depends entirely upon the difficulties encountered in administratively going ahead with the building of such a ship.

Mr. ALLEN. In your opinion, if private capital would not be attracted to an investment, should there be an investment of Government capital to make the building possible?

Admiral MUMMA. I think that is a matter, of course, for your deliberations and the determination as to whether this is a sufficiently important aspect of the United States policy from a national point of view; in other words, taking into account all parts of the country, to warrant the investment of funds in this manner.

I personally think that these ships are sufficiently important for them to be considered a national asset of primary importance.

Mr. ALLEN. Do you have any statement of what it would cost to build a troopship with no commercial features of the size and capabilities of the *United States* or the proposed sister ship?

Admiral MUMMA. We have made no such specific studies, Mr. Allen, because we have found that we are delving into the Maritime's business when we get that far afield from our own what we would call combat-loaded auxiliaries. Our combat-loaded auxiliaries are quite expensive compared to merchant ships.

For example, we have converted a couple of Mariners to what we call combat utilization and those ships become quite expensive, and this ship, the *United States*-type ship, already has a large number of those features incorporated in the design as approved with these defense features, so that it would cost us less to do and, therefore, some of the money is already saved by having put it in initially in the building of the ship.

The CHAIRMAN. Mr. Allen, would you yield?

Mr. ALLEN. Yes, sir.

The CHAIRMAN. Before you leave that conversion of the Mariners, what did it cost you to convert the Mariners to your desires?

Admiral MUMMA. The price varied somewhere between 16 and 19 million dollars, sir.

The CHAIRMAN. To convert them?

Admiral MUMMA. Yes, sir.

Mr. ALLEN. Possibly you could give us another estimate on the time factor. There has been some testimony that a ship in operation such as the *United States*, the *Wilson*, or the *Cleveland*, could be taken over and be under Navy operational control and possibly at sea in a matter of minutes if the emergency situation were sufficient.

How long would it take to break a troopship out of layup for a purpose that one of those ships might serve?

Admiral MUMMA. Normal activation we consider something of the order of 30 days or a little more. It depends upon the amount of modification and changes that are required during the activation, but for a ship like the *United States*, though there would be removal of ordinary passenger accommodation facilities like all the luxury items, the fundamental ability to convert quickly is there and the installation of the large number of bunks and the facilities for handling the large number of people are already incorporated in the ship, so that we have made such conversions as quickly as a matter of weeks, a short number of weeks, under urgent conditions.

Mr. RIVERS. Would you yield?

Mr. ALLEN. Yes.

Mr. RIVERS. How long would it take you to convert the *United States* and put 14,000 troops on there?

Admiral MUMMA. It would be difficult to estimate, but if it was very, very urgent, you could do it in the space of a couple of weeks, I would think.

Mr. ALLEN. One other point.

I notice in the statement that right at the end you say "Although our country's yards now have a fair workload." Do you know offhand how many shipyard workers are now engaged in the construction of ships in the private yards?

Admiral MUMMA. Separated by new construction and repair, in October of 1957, including shipbuilding and repairing, I have a preliminary figure of 129,000 employed in private shipyards. That includes repair. The percentage of the amount of repair is not very great. The total work to Navy account is approximately three-fourths of the total work in process in the country.

Mr. RIVERS. Three-fourths of 129,000?

Admiral MUMMA. Three-fourths of the total of 129,000 and 92,000.

Mr. RIVERS. That is 160,000?

Admiral MUMMA. Yes, sir. It totals a little over 200,000 people employed at the present time, naval shipyards and private yards.

Mr. ALLEN. It would indicate about 50,000 in construction and repair in private yards on private work?

Admiral MUMMA. More than half of the work in private yards is to Navy account.

Mr. ALLEN. Is that a satisfactory number of workers for mobilization purposes?

Admiral MUMMA. It is on the shy side, sir, when you consider that during World War II we have a total shipbuilding employment of 1,700,000, and we now have 200,000. It is, so far as I know, the only industry that is operating at about one-eighth of its World War II employment. I do not think you will find it in any of the other major industries, certainly not in steel, in aircraft, and in other portions of the industry.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. Admiral, Mr. Allen has anticipated me in the questions I was going to ask, but in connection with these two ships we are speaking about being special cases, will there ever be a time with the developments that are constantly taking place in this field that we can say the building of large ships is going to fit into a certain pattern of ships?

Will we not have to consider them pretty much from now on out as special cases? Will we ever be able to catalog them as we do tankers, or carriers, and dry cargo ships? Will they not all be pretty much special cases?

When you come to replace the *United States*, you will have to consider that in about 10 years, by that time do you not think there will be new developments in the replacement of that ship to make it a specialized problem again?

Admiral MUMMA. Yes, I am sure there will be, Mr. Miller. We have many cases in which technological progress would in itself make it a special case.

For example, I could visualize that the replacement for the *United States* might be a nuclear-powered ship, because by then we would have built the carrier, the carrier would have been running for a number of years, so would our cruiser have been running, and by then I certainly hope for naval reasons as well as commercial reasons that the cost would have come down a little bit. Therefore, I would certainly think that that might make it a special case again.

Mr. MILLER. In the foreseeable future then, there will be no time that we can say or that it would be possible perhaps to write general legislation which affects the replacement or the building of these large ships?

Is that a fairly good conclusion from what you have heard here and from your knowledge of these things?

Admiral MUMMA. That is a little bit difficult for me to answer, Mr. Miller, because I do not know to what extent different legislation is going to be required as a result of your deliberations here, but I think it might be difficult to write legislation that would take care of everything from now on.

I agree with you there.

Mr. MILLER. I have this in mind: The act of 1936 works very well for well-accepted types of ships. Should we tamper with that act and perhaps upset the experience and the balance that we put in to take care of these few extreme cases that are going to come up, or should we leave it alone and handle cases like the *Pacific Liner* and the sister ship, the *United States*, and give full weight to all of the factors that go into them in specialized legislation?

Admiral MUMMA. To a certain degree it is something like personnel legislation in the Navy. You have to have personnel legislation every 10 years just because conditions change, and I would suspect that some legislative overhauling of the situation would be required on that kind of a cycle for the purpose of keeping alive and staying up with the times.

Mr. MILLER. Admiral, we have discussed the carrying capacity of these ships. If we do not have these ships and an emergency arises, about how many ships would you have to break out of the reserve fleet to take care of the potential capacity?

Admiral MUMMA. Depending upon the situations, it might be anywhere from 3 to 8 ships, but these ships carry in a much safer manner that number of troops.

Mr. MILLER. And if you have to break out from 3 to 8 ships, you are going to start to dig pretty deeply into that reserve, are you not?

Admiral MUMMA. Yes, sir.

Mr. MILLER. You are going to get ships that are obsolescent. There are not only the safety factors, but the speed factor. It would be a very costly thing to operate, say, 6 ships as against these 2 to get the same results that you could get with these 2 ships if we have them in being.

Admiral MUMMA. Yes, sir; I would certainly agree.

For example, there is nothing quite as good as a ship in being and operating and being economically used by its owners as a potential source of carrying troops.

We feel, therefore, that a ship in being, in operation, and being kept up in proper fashion, is of far more potential value to us than would be ships actually in mothballs.

Mr. MILLER. You describe fully to the necessity for this ship for the Pacific along with the *United States* sister ship?

Admiral MUMMA. Yes, sir; I certainly do.

Mr. MILLER. Because that represents another field and one that we are not as familiar with because it is not quite as dramatic, but presents problems of its own that are peculiar to it with the great distances that must be traveled, the fact that explosive situations exist in the Pacific Basin, besides the great potential for trade if things ever iron themselves out: is that not true?

Admiral MUMMA. Yes, sir. We always have our eye on both oceans when we talk about these ships.

You know that we talk about the cruising range of the *United States*. If she were only going to be used in transatlantic voyages from here to the United Kingdom, there would be not much value in certifying defense features for additional cruising radius of that ship, so that we are interested in high speed, long-legged ships that can go anywhere we would want them to go in time of emergency, and that includes, of course, the broad Pacific where you automatically have to build in cruising range in order to take account of these great distances.

Mr. MILLER. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Ray.

Mr. RAY. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Dellay.

Mr. DELLAY. Thank you, Mr. Chairman.

You stated:

> It is recommended that the cost to the operator and the amount of construction differential subsidy be determined in accordance with existing statutory procedures.

Do we not also agree, however, where construction of a new vessel enters into the field of building a potential troopship which will be considered a naval auxiliary, serious consideration might be given to enacting special legislation in each instance?

Admiral MUMMA. Yes, sir; I think that is true, that if the existing statutory procedures do not cover this special legislation, then some other arrangement is pretty obvious. However, it might have been better if I had left that out of my statement because I do not think it really is part of my business in the Navy to get into this phase of operation of the Maritime Administration.

Mr. DELLAY. I would like to voice one thought, that most of us feel we do not want to change the existing statute ordinarily, and if we do change it, not change it generally. But I think if necessary we change,

in each specific instance. We can keep the existing statute and only change when each specific instance comes to the fore.

Admiral MUMMA. That, of course, would insure that it would get a pretty thorough review each time.

Mr. MILLER. Will the gentleman yield?

Mr. DELLAY. Yes, sir.

Mr. MILLER. I just neglected to compliment you, Admiral, on your statement. I think it is an excellent statement and I want you to know I for one appreciate it. With your vast knowledge of this problem, I do not know of anyone more capable than you and I am very happy you have done it the way you have, sir.

Admiral MUMMA. Thank you.

The CHAIRMAN. Had you finished?

Mr. DELLAY. Yes, Mr. Chairman.

The CHAIRMAN. Mr. Mailliard.

Mr. MAILLIARD. Yes, Mr. Chairman.

Admiral, getting to the APL ship, that has not been submitted to you yet, has it, formally?

Admiral MUMMA. Not officially, Mr. Mailliard. It has been given to us informally for advance study, and we have looked it over.

Mr. MAILLIARD. Can you give us any idea as to what changes you are going to make in it and what type of change?

I understand the APL ship that has been planned and designed is the ship they want for their particular commercial run and has no defense features in it.

Admiral MUMMA. We have not gotten into detail with the Maritime Administration or with the American President Lines on the ship, because we are waiting actually Maritime's comments in connection with the submission, so that what we are doing is just generally familiarizing ourselves with the ship.

I guess it is our understanding that there are at the present time no defense features involved in that ship, though I have not heard that except by hearsay.

Mr. MAILLIARD. I am sure there are defense features there by accident, but, as I understand it, it was not designed for specific defense purposes, and I just wondered if you had any rough approximation of how much rearrangement you might require to bring it up to the standard that you would want.

Admiral MUMMA. I do not believe we have given it sufficient detailed study to permit that at the present time, to permit a knowledgeable statement to be made on that point. I would estimate, however, that we would ask for a reasonable number of improvements in the ship from a defense point of view.

Mr. MAILLIARD. Would one probably be increased compartmentation?

Admiral MUMMA. It would be to a degree the amount that the design exceeds the commercial requirement.

Mr. MAILLIARD. What I mean is, regardless of the way it is planned now, you would want compartmentation similar to the *United States*, would you not?

Admiral MUMMA. Yes, that is right. In that size ship you would want that kind of compartmentation.

Mr. MAILLIARD. What about the speed?

Admiral MUMMA. I think we would get into the speed question pretty seriously to determine whether or not the speed could be increased.

Mr. MAILLIARD. Is it true in designing a large ship like that that you have kind of a break point at about 28 or 28½ knots, where you are going into substantial redesigning if you go above that speed?

Admiral MUMMA. That may be. I am not familiar with the lines of this ship in detail, because the current plans do not include lines. We have seen general arrangement plans, so I would like to get into that aspect of it with the designer, and with the American President Lines, and the Maritime Administration, when it is referred to us for this purpose of determining what is the economic speed to which this ship could be pushed from a defense point of view.

Mr. MAILLIARD. What I am really trying to get at is not the details, but the principle that is involved. We have had some testimony here that we probably cannot run a ship on two shafts much over 28 or 28½ knots. If that is so, then the moment you get up to the kind of requirements you put on the *United States*, with a defense speed of 33 knots, you would be talking, if that basic statement is correct, about substantial redesigning of the ship.

I am just wondering how you determine it. You say you want 33 knots. This ship is not so very much smaller than the *United States*. However, do you not also balance the desirability of that speed against what it is going to cost?

Admiral MUMMA. Yes, sir; and I think you would have a little more trouble getting 33 knots in this ship than in the *United States*, because, after all, the *United States* is a longer ship and speed comes easier in a longer ship.

Mr. MAILLIARD. So these defense features are not absolute in the sense that you decide what you want and you are going to have it no matter what it costs?

Admiral MUMMA. No, sir; because we cannot put ourselves in the uneconomic position of killing the ship by demanding things that you will never get, so automatically it is tempered with good judgment. We get the best defense features in the ship that are commensurate with its costs, utilization, and commercial demands, so that we do not spoil the ship commercially.

Mr. MAILLIARD. The APL, as I understand it, is a 26-knot ship, which is what they want for their commercial requirements, and if you, with some additional cost, can push it up to, say 28 or 29 knots sensibly without ruining the ship, that is what you ask for as a defense feature?

Admiral MUMMA. That is correct. That is the kind of thing that we go after as a defense feature.

Mr. MAILLIARD. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Pelly.

Mr. PELLY. Admiral, would it be fair to say that the Navy is now in the process of rebuilding the Navy in line with the atomic age, and nuclear power, and supersonic speeds, and that the budgetary requirements for getting those new ships is the one thing that impedes your asking for funds to provide adequate transports for the event of an emergency?

Admiral MUMMA. Not only that, Mr. Pelly, but we have a terrific problem in getting the features into the ships that we want.

For example, taking priority, of course nuclear power has first priority in the submarines where it conveys most to the ship. As a second priority, we would like to have all of our surface ships nuclear powered, too, from a mobility point of view and ability to stay at sea, but we find that we have to approach it at a reasonable pace in order to stay within economic bounds, costwise, and we at the moment are building a pretty fair number of ships conventionally powered in the interim until the nuclear power gets a little bit cheaper.

Mr. PELLY. What I meant was from a practical aspect you are not asking funds for essential troopships to have in the event of an emergency because you place a higher priority on combat vessels now?

Admiral MUMMA. We have to, Mr. Pelly, because we find that with the, shall we say, self-discipline, we have to place upon our own utilization of design features in combatant ships, we have really nothing left over at all to put money into the auxiliary types.

Mr. PELLY. Were that not the case, you certainly would have maybe $110 million in there for another troopship, would you not, because you consider it absolutely essential, that you would be seeking funds for if there were not a higher priority on combat vessels?

Admiral MUMMA. Except for the policy matter that is involved also of such ships being built by Maritime.

Mr. PELLY. However, here is a case where, instead of $110 million for $80 million, you could have a troopship available at a moment's notice bringing in actual revenue rather than having to be maintained at considerable expense, in standby readiness. So it is very desirable, I would think, from your point of view to have a sister ship to the *United States* built this way from the point of view of your budget as against having to provide the essential troopship for yourself, the Navy.

Admiral MUMMA. Yes, sir; from that point of view there is no doubt about it. Of course, as we always do in time of major emergency, we pool all of our assets nationally to the fundamental effort.

Mr. PELLY. However, this is a lot cheaper as far as the taxpayer is concerned?

Admiral MUMMA. That is correct.

Mr. PELLY. Yet provides you with what you feel is absolutely essential?

Admiral MUMMA. Yes, sir.

Mr. PELLY. That is all.

The CHAIRMAN. Mr. Rivers.

Mr. RIVERS. I am glad to see that you have taken out this part in here that Mr. Dellay called to your attention. I had that underscored, too.

Does the Navy need a sister ship to the *United States* in the Atlantic and at least one in the Pacific from strictly a security standpoint?

Admiral MUMMA. I think I said last year, and I think it is just as valid this year, that we could use a dozen ships of this size.

Mr. RIVERS. Does the Navy regard—when I say Navy, I am talking about you, Admiral—the merchant passenger service of which these two ships are a part as an arm of the national defense potentially?

Admiral MUMMA. Yes, sir. Just as the Coast Guard is a very integral part of the Navy in time of war, so does the merchant marine become a very strong right arm of the Navy in time of war.

Mr. RIVERS. You are interested in speed when you get mixed up in a ship like the *United States* and/or its successors. That is one of your prime considerations?

Admiral MUMMA. That is correct.

Mr. RIVERS. Because of the new high-speed underwater craft of our potential enemies?

Admiral MUMMA. That is right, Mr. Rivers.

Mr. RIVERS. You have to have it. The Pacific is a big ocean if you are in an airplane. That is not like the Atlantic. You get in the Atlantic and in 8 or 9 hours you see land, but in the Pacific you fly and fly and fly, and the same way with the ship; you sail forever, and with the ship that we want we are just not headed for Hawaii if we are interested in defense. You might want to go to Singapore, or Australia, or God knows where you might want to go, but you will want to go and will want to get there with speed; is that not right?

Admiral MUMMA. That is right, absolutely.

Mr. RIVERS. The point I am coming to is this: Therefore, dollar consideration cannot govern your decision. You cannot preface defense on cut rates or good bargains, because defense is something that you have to spend for. If you are going to get these things that these gentlemen have brought out to you, you have to have them in being now; is that not right?

Admiral MUMMA. That is exactly true.

Mr. RIVERS. You have nuclear power know-how on the west coast. That is why we are fighting to keep a certain naval shipyard in Long Beach, Calif., and other places there, because we cannot fool with the Panama Canal. We cannot be bothered with the Panama Canal if trouble comes. The ships have to be there and in being; is that not right?

Admiral MUMMA. That is true.

Mr. RIVERS. Is the APL qualified to handle a ship like the *United States* in the Pacific in your opinion?

Admiral MUMMA. Yes, sir.

Mr. RIVERS. Is there anybody else qualified to do it? You would not say no, would you?

Admiral MUMMA. I would not say no.

Mr. RIVERS. Are they qualified to handle two? What good would one do?

Admiral MUMMA. That is a determination that is usually arrived at with the Maritime Administration, in which they determine what is required for the commercial run.

Mr. RIVERS. They say what is required of the commercial run, but you would be interested in many factors—unemployment, defense potential, speed, ships in being, and numerous things. Therefore, to have 2 would be better than 1.

Admiral MUMMA. Oh, I certainly agree; yes, sir.

Mr. RIVERS. It would be just as noble an experiment as the one of Ned Cochrane and Earl Mills and all those fellows, but you wish now you would have built two, do you not?

Admiral MUMMA. That is right; yes, sir.

Mr. RIVERS. So give George Killion something that will balance his fleet. Let us give him two so it will be balanced. To me it is ridiculous. I have never ridden on George Killion's ships, but if he is entitled to one he ought to have two, just like General Franklin. He is burning up the *America*. You cannot run that ship at 22 knots. You ought to have 2 if they are for defense, and you said just now that you could convert it in 2 weeks, which is a great statement. It is remarkable.

If you need 1 in the Pacific you need 2, and I am glad to see you take this sentence out about dollar consideration. You should be prepared to justify it out of your budget if you said it is so good.

I am not talking about somebody else's budget. I am talking about your budget. You either need it or you do not. I am sincere about it and you know it. Shipbuilding is a hobby of mine. You know something about that, do you not?

Admiral MUMMA. Yes; I know you are interested in shipbuilding, Mr. Rivers.

Mr. RIVERS. Quite interested. I am interested in south of the Mason-Dixon line, too, but we would not get any of these ships down there. You said there were 129,000 employed in private yards and 92,000 in naval shipyards, and three-fourths of those, giving you over 160,000, are paid out of your budget. You did take that out of your budget?

Admiral MUMMA. That is correct; yes, sir.

Mr. RIVERS. We hear about this recession. I know parts of the America where they do not call it a recession; they call it a full-scale depression. And, Admiral, now would be the time to get in plans, because you do not learn to build ships overnight. You know that. The know-how has to be there, and I think if you are going to build 1 on the west coast you ought to build 2 on the west coast, and if the 1936 act is not capable of incorporating it and contemplating it and if the intent of Congress is not broad enough to be included in that act, we should change it, because of what you said, the security. That is your main reason for coming here.

I think, as I have said and told you, you have a fine shop downtown. You run it well and I admire you. You answer questions. A lot of times I do not like the way you answer them, but you answer them.

Admiral MUMMA. Thank you.

Mr. RIVERS. I think what you should do now is to get these things on the board and justify it out of your budget, and if you will do that I will help you, and you know I am a good fellow to have on your team.

Admiral MUMMA. I certainly agree.

Mr. RIVERS. I think, Mr. Chairman, what we should do now is to insist that we get a balanced program for the Pacific as well as a balanced program for the Atlantic—that is what I want the admiral to get in mind—and make the legislation sufficiently broad so that they could do it with the defense concept as well as the intent incorporated in the 1936 act, because there is not any such thing as free enterprise in this country as there used to be.

You can talk about it all you want. We talk about States rights down South and we holler about free enterprise. Everybody is getting help from the Government. In the great automobile industry they

are up to their necks in Government contracts. They are building the jet engines. We see these gentlemen every day in the other committee I serve on. They are building missiles. They are building everything. Everybody is influenced by Government money.

Those people across the ocean do not have any free enterprise either. The *Queens* and all these ships are British business, the Commonwealth, the Crown. The Viscount airplanes and all those things are built by the British Government, and the same way with the other countries, and we have to help our American people if they are going to be in business. Do you not agree with me?

Admiral MUMMA. Yes, sir.

Mr. RIVERS. I think we ought to draw the legislation to fit the case, because we need them in the Pacific from a defense proposition and we need them in the Atlantic from a defense proposition. Do you not agree with that?

Admiral MUMMA. I agree with that statement.

The only point that I have difficulty in agreeing with you, Mr. Rivers, is the fact that the requirements aspects of our budget is a very difficult thing to arrive at and it is done with a great deal of consideration. So far, we have not contemplated invading the Maritime and the Department of Commerce's area.

Mr. RIVERS. Invading it?

Admiral MUMMA. Invading it by budgeting for such as these types of ships.

Mr. RIVERS. I think you cooperate with them. I do not think you invade. Do you think if you went over there and said you needed 3 ships or 4 ships you would be invading?

I think they would like that kind of invasion. I think you ought to justify it out of your budget, because General Franklin has testified that he has to have more than his company can raise.

Admiral MUMMA. We think that this can stand on its own feet without its being a part of the defense budget, Mr. Rivers.

Mr. RIVERS. How much did you put in the *United States?*

Admiral MUMMA. The Navy did not put anything in the *United States.*

Mr. RIVERS. You justified it anyhow?

Admiral MUMMA. Yes, sir.

Mr. RIVERS. That is what I had in mind.

Admiral MUMMA. Yes, sir.

Mr. RIVERS. How much would you be willing to justify for another *United States?*

Admiral MUMMA. The defense features have not been requested to be certified yet because the Maritime Administration has not yet told us what the commercial requirements of the ship are.

Mr. RIVERS. Then what would be your modus operandi?

Admiral MUMMA. We would then determine in consultation with the designers, with the U. S. Lines, and with the Maritime, some method of determining what were and what were not defense features, which we would then certify to the Maritime Administration and the Maritime Administration would then be charged with the task of carrying out the building of the ship.

Mr. RIVERS. This is my last question, Mr. Chairman.

Let's get down to brass tacks. Say the Maritime Administration says, "We want another *United States* very badly"; what about 1946 when they built it?

Admiral MUMMA. Actually, the current design is not identical.

Mr. RIVERS. Just say it were. You would not have any trouble. You would say O. K.?

Admiral MUMMA. If we could get it at the same price, I do not think there would be any question at all.

Mr. RIVERS. Now you are getting back to this statement, putting it on a dollar value. You said you would take that out. Get away from dollar value.

Admiral MUMMA. I was considering the Maritime view as well.

Mr. RIVERS. You consider your own view now.

You are not concerned with dollars?

Admiral MUMMA. I am not concerned with dollars, and that is why we have taken a position which is extremely strong from a national defense point of view.

Mr. RIVERS. All right; from a national defense point of view. The Maritime Commission says, "We want another *United States*," but instead of putting in $40 million—how much was in the first ship? Forty-some-odd million dollars?

Admiral MUMMA. It is of that order.

Mr. RIVERS. Say it cost $60 million, or $70 million, or $100 million; what would you say?

Admiral MUMMA. I would still say it is Maritime's business.

Mr. RIVERS. You would not say that is pretty good for defense?

Admiral MUMMA. No; I still say it is their business, Mr. Rivers.

Mr. RIVERS. Without any suggestion from you?

Admiral MUMMA. That is correct.

Mr. RIVERS. What did you say when they built the *United States?* It is still their business?

Admiral MUMMA. Yes, sir.

Mr. RIVERS. Why did you put 4 compartments in and 3 or 4 powerplants, and everything in there except the piano stool and the meat block?

Admiral MUMMA. Because we felt it was important from a defense point of view.

Mr. RIVERS. Why not now? Invasion?

I think you ought to answer the question. If it costs $100 million and you need it, you ought to say, "We are for it"; should you not?

Admiral MUMMA. I do not think I should be answering that question specifically as to an amount. It is not my business, Mr. Rivers.

Mr. RIVERS. Answer this question: Would you be willing to certify another fast transatlantic liner in the Atlantic as a defense potential?

Admiral MUMMA. Yes, sir; I have said so.

Mr. RIVERS. Say so again.

Admiral MUMMA. I say so again.

Mr. RIVERS. That is all.

The CHAIRMAN. Mr. Gross.

Mr. GROSS. Admiral, if you were building a troopship, what minimum speed would you build into it?

Admiral MUMMA. That would depend upon the size of the ship and her ability——

Mr. GROSS. Let's say a big troopship.

Admiral MUMMA. A troopship of this size, sir.

Mr. GROSS. Yes.

Admiral MUMMA. We would build at least 33 knots into it.

Mr. GROSS. That would be your minimum requirement?

Admiral MUMMA. Yes, sir.

Mr. GROSS. There has been a great deal of talk about compartmentation of ships. What would be the result if nuclear warheads were used?

Would there be any ship survival at all regardless of the number of compartments of the ship?

Admiral MUMMA. That would be difficult to visualize. It would depend how far away the explosion was from the ship. If it were actually a contact explosion in the ship, the chances of survival of the ship are rather remote.

Mr. GROSS. No matter how many compartments the ship might have?

Admiral MUMMA. That is correct, sir.

Mr. GROSS. That is what I thought.

Have you made any tests?

Admiral MUMMA. Yes, sir; we have.

Mr. GROSS. Upon various compartmented ships?

Admiral MUMMA. Yes, we have, not only at Bikini, but Eniwetok and other tests in the Pacific so that we know the effects of explosions, both air and under water.

Mr. GROSS. So again, while compartmentation is something to be taken into consideration, compartmentation with the use of present weapons is no assurance of ship survival, is it?

Admiral MUMMA. That is true. It is impossible at the present time to insure against sinking a ship, because of the greater lethal capability of a nuclear torpedo or bomb.

Mr. GROSS. Do you have any idea of why foreigners building superlines do not put defense features into them?

Admiral MUMMA. I do not think they call them such. They certainly have general subsidies of a type. In other words, the Government, I am sure, helps most of them with their construction, but I do not believe that they have had the close working relationship between the military side and the civilian side that we have with our Maritime Administration and with our design agents and shipowners, so that we get a far better ship in proporation to its use commercially than do the other countries.

Mr. GROSS. Admiral, that is a little bit hard to understand because the British were building ships before there was a United States of America. They have been engaged in wars all over the world and it is hard to understand why they build superliners without quick conversion features.

As you know, it was testified here yesterday that the French are building a superliner today that apparently carries no defense features in the terms that we think of.

Admiral MUMMA. I personally think that is a great mistake. The *Queens*, if they had ever taken a torpedo during World War II, would have been in pretty sad shape in comparison to the *United States*, and the same was true of the *Normandie*, actually, when she had her fire,

so that I would say that these defense features that go into the *United States*, for example, are extremely valuable.

Our demanding them also makes a benefit for the commercial utilization of such a ship. An *Andrea Doria* accident could not possibly have happened to the *United States*.

Mr. GROSS. Apparently we are not only going to furnish the materials but we are going to furnish the men to fight the next war, if there is a next war. I hope there is not. However, if there is, apparently we are going to furnish everything.

Admiral MUMMA. We are going to be carrying our lads in at least our own ships to the maximum extent possible next time, and they will be safer as a result of that. Certainly an additional *United States* would be far more desirable from all of our points of view in this country than to put them in some foreign bottoms that we cannot trust as soon as they have a minor collision.

Mr. GROSS. I hope that is right. I will never forget the trip I took in 1918 over to France in a British tub. I hope that Americans will be carried in American ships. I never want another ride in a British troopship or the equivalent of it.

Admiral MUMMA. I have ridden the *Queen Mary*. I have also had two voyages in the *United States*, and I must say that, from a technical point of view, I have been over it from stem to stern, not only builder's trials but during both of those voyages, and I can assure you that from a technical excellence point of view she is a magnificent ship, and from a safety point of view for carrying the passengers she is unexcelled on the North Atlantic now.

Mr. GROSS. You are speaking of the *Queen Mary* now?

Admiral MUMMA. I am speaking of the *United States*. I say I have also been aboard the *Queen* and been all through her, and I can assure you that there is nothing that excels the *United States* on the North Atlantic from a safety point of view.

I might add, incidentally, that one aspect of an operating ship of this type is the fact that you have a trained crew on board that know how to operate the ship efficiently and well, and I might also add that the crew of the *United States* is a magnificent crew.

Mr. GROSS. That is all, Mr. Chairman.

The CHAIRMAN. I regret very much, Admiral, that the press was not present when you made the statement about an accident such as that that happened to the *Andrea Doria* could not have possibly happened to the *United States*. That was your statement, was it not?

Admiral MUMMA., That is correct, sir.

The CHAIRMAN. Mr. Curtin.

Mr. CURTIN. Admiral, what is the maximum speed of the *Queens*? How fast do they go?

Admiral MUMMA. I believe they had them wide open when they took the blue ribbon at around 32 knots.

Mr. CURTIN. Both of them are about the same speed?

Admiral MUMMA. I believe so.

Mr. CURTIN. That is all, sir.

Mr. RIVERS. Mr. Curtin, would you mind one little observation?

Mr. CURTIN. No.

Mr. RIVERS. Would you deny that the *United States* can exceed 42 knots?

Admiral MUMMA. I do not wish, Mr. Rivers, to discuss the speed of the *United States* beyond 33 knots.

The CHAIRMAN. Mr. Drewry.

Mr. DREWRY. Admiral Mumma, what you have said here today is a reaffirmation of what you said when we had the hearings some months ago, you and Captain Outerbridge, I believe; is that correct?

Admiral MUMMA. That is correct, yes.

Mr. DREWRY. The only thing is, we are 19 months further along, so that would suggest that there may be a little more urgency now than there was then. Would you say that is true?

Admiral MUMMA. I would certainly agree. I think we have lost time.

Mr. DREWRY. In reaffirming what was said before—I do not recall whether it was you or Captain Outerbridge—the statement was made with regard to the *America* that the Department of the Navy would not object if she went into operation by sale to a friendly country, a NATO country; is that correct?

Admiral MUMMA. I think that statement was made; yes, sir, Mr. Drewry.

Mr. DREWRY. Do you still hold to that position?

Admiral MUMMA. Yes. I think that is consistent with our position at the present time.

Mr. DREWRY. Bearing in mind your earlier statement about the tightness of your grasp on certain troop ships which are in reserve, and bearing in mind the testimony of Admiral Wilson that there were quantitatively about 156 ships of troop-carrying capability, of which only 12 are 20 knots or better, what would be your personal opinion as to the alternatives of selling the *America* abroad, or selling off some of these older, slower ships and retaining the *America* under direct American control, with the slower ships to be sold up to, say, an equivalent dollar value or something like that, if the dollar question is the sticking point as to whether this vessel is traded in or sold foreign?

Admiral MUMMA. I think our interest in that would be primarily on the basis of the troop-carrying capacity of the corresponding ships that you refer to. There might be advantage actually in keeping the *America* and letting the others go from either a monetary or possibly even from our point of view.

Mr. DREWRY. The questions of space, and speed, and those things would all enter into it?

Admiral MUMMA. That is right, and the *America*, of course, is faster than most of those ships.

Mr. DREWRY. She is apparently, according to Admiral Wilson's statement, one of the 12 ships in the United States capable of 20 knots or more, and you are thinking in terms definitely above that as you have expressed it here today.

It is your personal opinion that it might be a reasonable way of meeting the thing so that we could in effect upgrade our reserve capacity of troop-carrying capability and at the same time, if these other ships are transferred to friendly countries, then they are still just as available as the *America* would be if it were transferred in the same way?

Admiral MUMMA. That is correct, Mr. Drewry; yes.

Mr. DREWRY. That is all, Mr. Chairman.

Mr. TOLLEFSON. Mr. Chairman, could I ask one question?

The CHAIRMAN. Yes.

Mr. TOLLEFSON. Admiral, Vice Admiral Will was quoted as saying that some of our troop ships are fast approaching obsolescence and that if private industry does not soon build some passenger ships, the military will be compelled to.

Is that stating it about right?

Admiral MUMMA. It could well be. However, we are having difficulty building any ships of this type at the present time because we are not able to build such numbers of the combatant types, so that it would be a priority problem within the Navy, I am sure.

Mr. TOLLEFSON. However, if these two proposed ships are not built for some reason or another, would the time soon come when you would feel compelled to suggest to Congress that the military build some troop ships?

Admiral MUMMA. I certainly would think it would be a matter for consideration; yes, sir.

Mr. TOLLEFSON. That is all, Mr. Chairman.

Mr. GROSS. Will the gentleman yield?

Mr. TOLLEFSON. Yes.

Mr. GROSS. By the same token, if these ships were built, would you be in asking for troop ships?

Admiral MUMMA. This would eliminate some of our desirability of having troop ships. It would automatically replace some of our pent-up demand for ships of this capability.

Mr. GROSS. That is all.

The CHAIRMAN. Thank you very much, Admiral. You have been a most interesting witness and the committee appreciate your sound advice.

Admiral MUMMA. Thank you, Mr. Chairman.

The CHAIRMAN. On account of unavoidable conditions, Mr. Killion, who was scheduled to appear here last week, could not be present, so I am going to give Mr. Killion an opportunity at this time to present the situation with respect to his operation in the Pacific and the difficulty he is having with the Maritime Administration in the construction of his two passenger vessels.

Mr. Killion, we are glad to have you. I sincerely hope you are feeling better than you were a week ago.

STATEMENTS OF GEORGE L. KILLION, PRESIDENT; ARTHUR B. POOLE, VICE PRESIDENT AND TREASURER; AND GEORGE T. PAINE, VICE PRESIDENT, ENGINEERING, AMERICAN PRESIDENT LINES, LTD., SAN FRANCISCO, CALIF.

Mr. KILLION. Thank you.

The CHAIRMAN. You may bring such assistants as you care to have with you, Mr. Killion.

Mr. KILLION. I would like to have Mr. Poole and Mr. Paine.

The CHAIRMAN. For your benefit, I want to let you know that your assistant, Colonel Brinson, made a very forceful statement and presentation of your case before this committee last week.

Mr. KILLION. Thank you. That was expected of him, of course, and I knew that he would. I did regret very much, Mr. Chairman and gentlemen, that I was unfortunately detained by a case of the Asian flu in our efforts to build a ship that would serve Asia, and I want to thank you very much for allowing Mr. Brinson and my other colleagues here to substitute for me last week and to permit me now, Mr. Chairman and gentlemen, to submit a brief supplemental statement to that which was read to you a week ago Tuesday.

I am not at this stage, Mr. Chairman and gentlemen, going to repeat a lot of the facts that were in the first statement. However, first, the large, fast, passenger liners that are now under consideration by your committee are urgently needed for national defense reasons, both in the Atlantic and in the Pacific.

I was very much impressed by Admiral Mumma's statement here in which he said that these two proposed ships would be national assets of great importance. With that, of course, I am in complete agreement.

Second, as has been pointed out here, these ships are so expensive to build that surely, when the burdens of private financing are added, they are not economically feasible under the provision of the Merchant Marine Act, 1936.

The committee does not face an easy task in reconciling these two basic facts. There is no need at this stage of the hearing to underscore the necessity of a solution. But it may be well if I added a footnote on its urgency, since it has been suggested that legislative action on the transpacific superliner might be premature. This is apparently because we have not yet advertised or opened bids, nor has the Navy Department yet specified items of national defense in addition to those we have put into the ship.

Mr. Paine will explain some of the national defense aspects. He is the head of the engineering department of American President Lines and is working with the designer in the design of this ship. It is true that there is a great deal of work yet to be done, but it seems impossible to describe this legislation as premature.

The budget submitted to the Congress by the President includes funds for the construction differential subsidy for this liner, under private financing. American President Lines is under contract requirements to have made a construction contract with a domestic shipyard by July 1, 1958. That is only 4½ months away. We are, if anything, tardy rather than premature.

It has also been suggested that an increase in the construction differential rate might come about, would be very welcome, and that this would solve our problem. But that increase would probably represent increased United States costs, not lowered foreign costs.

For example, Chairman Morse increased our estimated C.D.S. rate from 43 percent to 47 percent. But he also increased the domestic cost estimate from $73 million to $76 million. The net gain to APL is very small, and increases our expected rate of return by only 0.3 percent per annum.

One other suggestion made to you deserves comment. It said that APL might be able to borrow privately for less than 5½ percent.

I am sorry to say that we have had some experience in that field and we are undergoing it at this very moment. We will within a few days,

we might even today or tomorrow, conclude contracts calling for about $14 million of private financing at 5½ percent, including the Government insurance premium. We are confident that, even were rates to decline, we could not do better if we were borrowing up toward $30 million more for so risky a business as a passenger superliner. We have, in any case, been assured by the top officials of the major financial institutions that they anticipate no decline in ship mortgage rates, whatever the decrease with respect to commercial paper.

I do not need to explain to the committee that the Government is not paying 4 percent for its borrowed money, as has been suggested here. It is only necessary to look at the financial quotations in the daily press to find a general answer to this inquiry.

To be more precise, we expect to receive a letter today advising that as of January 31 the average rate on the Government debt was 2.8 percent.

The bills before you have led to the comment that American President Lines would be content with a smaller rate of return on its investment than that United States Lines deems necessary and essential.

It is perfectly true that the legislation directed toward the transpacific liner, which we have endorsed and do endorse, would provide a distressingly small rate of return. That is because we felt it desirable, and possibly incumbent upon us, to stay as close to the 1936 act as the solvency of our company would permit.

But if the Congress is prepared to recognize that the operator is entitled to a reasonable rate of return on his investment in these vessels, so important for national defense, and to promote the foreign commerce of the United States, then APL is quite obviously not satisfied with the negligible return possible even with Government financing under the 1936 act.

If the Congress is being asked to recognize the realities of the superliner economics, those economics are just as harsh and just as real for APL as for United States Lines. Whether it is in the Pacific or in the Atlantic, no greater contribution should be asked from APL than from the United States Lines.

It is true that our original request was cut much more closely to the bone. We will accept that original proposal, if that should be the decision of this committee and of the Congress. But we do insist that there should be equality of treatment between the Atlantic and the Pacific, and that the legislative program of the Congress should be fixed on its merits, and not what has been described as the initial asking price of the parties.

The committee has been told that it might possibly solve its problems by enacting that the commercial speed for a transatlantic passenger vessel is 28.5 knots. I rather doubt that the committee will want to recommend to the Congress that it enact a conclusion as to commercial speed which the Federal Maritime Board and the General Accounting Office have felt unable to accept. But if this approach should be considered, the identical reasoning would indicate that the commercial speed for a transpacific superliner is 23 knots, to use that formula, and that the costs for speeds in excess thereof should be a national-defense feature.

It seems to me, as I have been advised of the course of these proceedings, that the committee may consider the fixed-price sale, under

sections 502 and 503 of the act to be the easiest and the simplest escape from the dilemma presented by indispensable ships which the operators cannot afford to build without some small measure of assistance.

Mr. Morse, in his testimony, indicated that the domestic cost of the commercial vessel, with a 30.6-knot speed, to replace the steamship *America* would be about $105 million as compared to about $130 million for the vessel with defense features.

He said also that the domestic cost of the superliner proposed by APL would be about $76 million. The fixed price of $47 million proposed for the United States Lines, 44.7 percent, is the equivalent of a fixed price of $34 million for the transpacific superliner, just to use the same formula right across the board.

That sale price of $34 million, I note, will bring the expected rate of return upon the APL capital necessarily employed almost, but not quite—Mr. Poole has figured out with a very small percentage—up to that modest amount of rate expected for the United States Lines.

I would strongly recommend this as a solution to the problem of the two superliners, if the committee feels that simple and forthright action is the best course. If it should feel that private financing of these vessels is desirable and essential, then a fixed price of $32,400,000 would produce a reasonable return for APL.

The chairman has quite properly asked for assurance that the desired result be accomplished without creating a precedent for cargo vessels.

I should like to state right now that APL does not wish or propose any action here which would be applicable to cargo ships. We have recently purchased and are building 10 cargo ships, and will be building 10 more in the years just ahead. We neither need nor request your aid as to these, except the normal C.D.S. rate.

The United States merchant marine today has in service in the Pacific only 10 passenger ships, having a speed in no case greater than 19½ knots, an average age of 15 years, and a total passenger capacity of less than 4,200. This ship we propose would greatly strengthen our national defense in the Pacific. It would greatly strengthen our prestige in the Orient.

I might digress from my prepared statement just to say that, if my memory serves me correctly, there has not been a large passenger ship constructed in the Pacific since many years prior to the war. Recently the Matson Navigation Co. did convert two Mariners. The *Cleveland* and the *Wilson*, which we now operate, were converted P–2 transports, converted in 1947. The *Cleveland* sailed on its maiden voyage on December 27, 1947, and the *President Wilson* in May of 1948, and not since perhaps the *President Hoover* and the *President Coolidge* have any passenger ships been constructed for service in the Pacific. That was many long years ago.

Mr. MILLER. Would the gentleman make the point that two ships he is referring to, both the *Hoover* and the *Coolidge*, were lost in the World War, and the present *Hoover* and *Coolidge* are reconverted, much smaller ships?

Mr. KILLION. Yes. The *Coolidge*, which is now in service is a Mariner with 12 passengers, and the *Hoover* we acquired as an interim vessel to operate pending the construction of the superliner.

We want to get this ship underway. We propose to call it the *President Washington*. So, I am sure, is the United States Lines

anxious to replace the *America*. These two great ships can be built as a product of our common effort, Government and industry working together.

I believe that in the years to come the committee would feel that one of its most important accomplishments was the solution of the impasse which now prevents building of the two great ships which have been described to you. The American merchant marine is on the upgrade in cargo ships.

You are familiar, of course, with the very progressive program of the Maritime Board in the construction of freighters, and I cannot believe that we are forced to the conclusion that the large, fast passenger liner, with American standards of safety and speed, is indispensable but just cannot be built. That is not the answer which has ever appealed to this country, or to this committee, or to this Congress.

I want to thank the committee for allowing me to make this supplemental appearance, and in particular for its patient examination of these important problems.

May I, finally, express my appreciation to Chairman Morse and his staff for their recognition of our problems, and, even though he has not endorsed our solutions, for the fair and forthright testimony he has presented to this committee. And he is requiring us to sign a contract with him by the first of July of this year.

Thank you very much, gentlemen.

The CHAIRMAN. On page 3 in the second paragraph, where you arrive at the 23-knot commercial speed for the Pacific as against a 28.5 knot in the Atlantic, on what do you base this 23 knots in the Pacific?

Mr. KILLION. Only as a formula in respect to the national defense allowance speed.

The CHAIRMAN. Is that based on ships now operating in the Pacific, or is this 28.5 based on the operation in the Atlantic?

Mr. KILLION. We believe that a ship of 28½ knots, 27 knots actually, will be essential to maintain our position in the Pacific. The British are coming in very soon, as you have been told, with ships of 27 knots. The Japanese are expected to come in very soon with ships of about that speed.

We do not want to build a ship of 23 knots. We are not proposing it. We did submit a proposal to the Federal Maritime Board, the design of a 23-knot ship, but that was not given consideration. We only use it here as a formula in respect to the differential in price to the extent of Government aid.

The CHAIRMAN. On page 4 in the third paragraph you have the average speed in the Pacific.

Mr. KILLION. An average age of 15 years.

The CHAIRMAN. Yes, you have an average age of 15 years, and what is the speed in the Pacific?

Mr. KILLION. Nineteen and one-half knots is the speed of the *Cleveland* and *Wilson*.

The CHAIRMAN. You have not any speed in any case greater than 19 knots?

Mr. KILLION. That is right.

The CHAIRMAN. What is the average speed in the Pacific in passenger vessels?

Mr. PAINE. The large majority of the ships, Mr. Chairman and members of the committee, is made up of converted P–2 transports, which make 19½ knots. There is the *Hoover* which makes 17 knots. There is the *Lurline* and *Matsonia*, and the *Mariposa* and *Monterey*, all within just about that range. It averages about 19½ knots.

The CHAIRMAN. Is there any ship in the Pacific over 20?

Mr. PAINE. No, sir; there is no American-flag ship in the Pacific over 20 unless the *Matson* might make 20.3 or something like that. It is very, very close to 20 knots in American-flag.

The CHAIRMAN. Mr. Killion, we are confronted with the fact here that it has been substantially established by the Atlantic operator that the return on the investment is insufficient for private capital in any operation, and that under the present 1936 act it is impossible to do better. That has been pretty much agreed to by both sides. We have that situation before us.

Do you feel that in your presentation you have substantiated the situation in your venture with private capital in the Pacific?

Mr. KILLION. I do not quite understand the last part of your statement.

The CHAIRMAN. I said in the Atlantic situation, the witnesses who have testified, having heard the evidence, have practically agreed that normal business would not invest risk capital at such a small return on the necessary capital to be invested, and we have reached the position from the testimony and the facts that the replacement for the *America* cannot be built under the 1936 act. That has been generally agreed to by the Government and by other witnesses we have had.

Do you feel that you have reached the same position with the building of these ships which we agree are necessary, in the Pacific?

Mr. KILLION. Yes, we have.

The CHAIRMAN. Do you feel that your testimony has clearly developed that?

Mr. KILLION. If it has not, I will be very glad to develop it further. I was hopeful that our original testimony, without any other supplemental statement by Mr. Poole, who is the treasurer of our company, would explain those facts.

The CHAIRMAN. Or is it the fact that in the Pacific you do not have the yardstick that the operation in the Atlantic has?

Mr. KILLION. The yardstick in respect to speed?

The CHAIRMAN. The return on the investment.

Mr. KILLION. The return on our investment.

Well, we have operated the *Cleveland* and the *Wilson*, which cannot be compared at all. Those ships were bought at a fixed sales price, as converted P–2 transports. We have no yardstick except our experience in attempting to finance the construction of our two cargo vessels through private capital.

We are forced to pay 5½ percent. All of our calculations and all of our estimates indicate that it would be impossible to build and operate this ship on the basis of private financing. You just could not do it. It would break the company.

Mr. Poole may want to add something there. He has developed a lot of facts and figures to substantiate our position in that respect, Mr. Chairman.

The CHAIRMAN. On page 3, this sentence is noted:

> It is true that our original request was cut more closely to the bone. We will accept that original proposal, if that should be the decision of the Congress.

We are confronted with a situation when we go to the floor, Mr. Killion, that we have to show that these ships cannot be built under the 1936 act.

Do you feel that your negotiations have gone to the extent that you can conclusively show that you cannot build under the 1936 act?

Mr. KILLION. Mr. Chairman, I would like to answer the question this way: Possibly at the beginning we did not explain fully our reasoning.

The CHAIRMAN. I may have overlooked something and not have in mind some of the testimony you have already produced, but I want to get this in the record if I can.

Mr. KILLION. Yes; I understand, and I regret that I was not here at the time. I was in bed with the flu. However, it depends upon, it would seem to me, the degree of financing under the act. That is why Mr. Brinson, in reading the statement, stated that it might be necessary, if this was the method used, to permit a construction differential subsidy in excess of 50 percent. That was why we used that.

Now, when we found, Mr. Chairman and gentlemen, that there was considerable feeling concerning that, and perhaps it would not be desirable, then we felt that possibly then a fixed price could be the answer. This price is the kind of a price that we would want to pay to establish a fair rate of return, whether it would be, under the act, financing with allowance in excess of 50 percent or a fixed price with the construction differential subsidy remaining the same as it is today.

Chairman Morse has set a 47 percent construction differential subsidy.

The CHAIRMAN. That was more than the differential subsidy at the time you negotiated with Maritime?

Mr. KILLION. Yes. As I explained here, the difference from 43 to 47 with the increased price of the ship from $73 million to $76 million would not be much of a relief to American President Lines. The price of the ship has gone up.

We were only arriving, gentlemen, at what we thought would be a fair rate of return, and the formula we were using is really no different in its final aspects and in its objective from what is being proposed for a fixed sales price.

The CHAIRMAN. Another aspect that confronts us is that evidently Budget felt that you were so near in your negotiation with the Maritime that they included funds for your ship in the budget, and we are going to have to explain that a bit. It possibly may be asked us.

Mr. KILLION. I might say in reply to that, Mr. Chairman, that when the steps were taken to include this amount in the budget, there had been at that time very little experience by any operator in respect to the borrowing of private capital. Subsequent to that, Mr. Poole himself negotiated with some private firms for the loan of $14 million with which to finance the construction of these 2 cargo ships at 5½ percent. That came subsequent to the decision to include the amount of the budget.

I do not know what would be the decision now. Some, as Mr. Paine explains to me, were not even interested at 5½ percent.

The CHAIRMAN. You mean the private capital that you approached?

Mr. KILLION. Yes, sir. Before coming to Washington yesterday, I talked to some bankers and asked them if there was any indication that money was any more reasonable and they held out very little hope.

One factor involved, which is, of course, of great concern, is that we are locked in on this loan for a period of 10 years. You have to pay five and a half and you cannot even prepay the amount in order to reduce your interest payments.

The CHAIRMAN. You understand, Mr. Killion, that there is no question before this committee as to the essentiality of these ships. I do not think there is any need for the committee to ask you any further questions about the necessity of these ships other than to compliment you on your desire to build the ships, because the fact has been clearly established by previous witnesses that these ships are absolutely essential to the advancement of our commerce and the national defense. So I hope the members will pass that over.

Of course, I know they are interested in the Pacific, but I want to get your case established in the record so that, when we have to take this matter to the floor of the House and when we say that these ships cannot be built under the 1936 act, we can substantiate the statement by the facts. That is the reason I am asking these questions.

Mr. KILLION. I appreciate very much the opportunity to clarify that.

I note that Mr. Morse in his testimony yesterday stated that our ship would earn only 2.15 percent on the capital employed.

Mr. DINGELL. Would you agree with that figure and would you care to make any comment on it?

The CHAIRMAN. I am going to let the members from time to time ask the witness such questions as they desire.

Mr. KILLION. I think Mr. Morse is accurate in that. Would you not say so, Mr. Poole?

Mr. POOLE. Yes, sir.

The CHAIRMAN. What do you mean my bringing that figure up at this point? Is there a comparison you are making with some other presentation that has been made?

Mr. KILLION. I only bring it up, Mr. Chairman, to indicate the low rate of return on the basis of private financing.

The CHAIRMAN. On the Pacific side?

Mr. KILLION. On the Pacific, yes.

The CHAIRMAN. What does it reflect on the Atlantic side?

Mr. KILLION. I cannot answer that.

The CHAIRMAN. Was it put in testimony here?

Does the testimony show what the situation would be on the Atlantic side with this capital investment?

Mr. POOLE. Yes, sir. The Maritime Administration testimony compared rates of return between the two companies, or at least gave the rates of return for both companies under several given conditions.

The CHAIRMAN. Is yours favorable or less favorable?

Mr. POOLE. No, sir; in each case our rate of return was less favorable as computed by the Maritime Administration.

The CHAIRMAN. Under conditions provided in the 1936 act?

Mr. POOLE. Yes.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. Mr. Killion, I concur in your view that whatever the committee does or whatever Congress does, there should be what you call equality of treatment as between the two companies. Do I understand you to mean by that that you should be permitted to have a comparable rate of return to that made possible to United States Lines in whatever proposal that is approved for them.

Mr. KILLION. Yes.

Mr. TOLLEFSON. You have suggested 2 possibilities to the committee, that the committee fix the commercial equivalent for the Pacific vessel and the commercial equivalent for the Atlantic vessel at 23 knots and 28.5 knots respectively.

Mr. KILLION. Yes.

Mr. TOLLEFSON. Then you also suggest the sale at a fixed price to the two companies?

Mr. KILLION. Yes, sir.

Mr. TOLLEFSON. In both those instances, would your anticipated rate of return be the same as that of the United States Lines?

Mr. KILLION. Yes. That is what has been worked out on the basis of a fixed price of $32,500,000 for our ship as contrasted with the price of $47 million for the Atlantic vessel.

Mr. TOLLEFSON. It would be difficult, of course, to come up with any kind of a formula that would say you can make 6 percent and the United States Lines make 6 percent. There would be bound to be some variance.

You would not quarrel with the thought that there would be a variance possibly?

Mr. KILLION. I would not quarrel with it if it was within a reasonable amount.

Mr. TOLLEFSON. You would want a spread, say, of 2 to 10 or something of that sort?

Mr. KILLION. We would think that would be unfortunate and rather a tragic outturn.

Mr. TOLLEFSON. I agree wiht you that the two companies should be treated as much alike as possible from the standpoint of the Government's treatment of you.

That is all, Mr. Chairman.

Mr. KILLION. We appreciate that.

The CHAIRMAN. Mr. Robeson.

Mr. ROBESON. I have no questions, but I join in complimenting you for your fine testimony.

Mr. KILLION. Thank you, sir.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

Mr. Killion, would you tell us which American-flag lines are engaged in substantial foreign passenger-carrying business?

Mr. KILLION. Which American-flag lines are now engaged?

Mr. ALLEN. Yes.

Mr. KILLION. You have Oceanic and Matson in the Pacific, of course, and APL—you are talking about the Pacific?

Mr. ALLEN. The whole world.

Mr. KILLION. Moore-McCormack, Grace, United States Lines, American Export, the Mississippi.

The CHAIRMAN. These are strictly passenger operations?

Mr. KILLION. Passenger and freight.

The CHAIRMAN. I know, but operating strictly passenger vessels?

Mr. KILLION. The Grace Line is building some new ships and so is Moore-McCormack, combination ships.

Mr. ALLEN. The Grace Line has 2 ships of about 250 capacity that are being replaced, and several ships of 52-passenger capacity.

Mr. KILLION. Pardon?

Mr. ALLEN. They have several ships of 52 passengers?

Mr. KILLION. That is right.

Mr. ALLEN. Oceanic has 2 ships of about what, 200 passengers?

Mr. KILLION. I think two-hundred-some-odd, 255. They were converted from Mariner-type ships, as you know.

Mr. ALLEN. Your ships are what capacities?

Mr. KILLION. About 800; that is the *Cleveland* and *Wilson*, 2-class ships.

The *Polk* and *Monroe* are about 96.

The *Hoover* is 215.

Mr. ALLEN. You have five ships in the passenger business?

Mr. KILLION. Yes; we have five.

Mr. ALLEN. United States Lines has two?

Mr. KILLION. To my knowledge, two, yes; the *America* and the *United States*.

Mr. ALLEN. And Export has two large ones?

Mr. KILLION. The *Independence* and the *Constitution;* yes.

Mr. ALLEN. I do not know about the others, but the point I am getting at is, in the passenger-carrying field, APL is one of the few American lines in the business and it ranks among the larger capacities of carriers.

Mr. KILLION. We actually operate, I would say, probably more passenger ships, not in tonnage, understand, but in numbers.

Mr. ALLEN. The question of speed confuses me somewhat. I remember the story on the Mariners at the time when the first sales were arranged, it was indicated that because of the broad reaches of the Pacific, a fast ship was very desirable and only a long voyage would support such a ship because it gave it a chance to use its speed a greater percentage of the time.

Why does not the same principle apply to passenger ships and why would you not be as well or better off with 30-knot ships or better on the Pacific?

Mr. KILLION. I am very glad you asked that, because I have been asking it myself for a long time, and so have Mr. Paine and the engineers and the designers, and the problem is that long haul across the Pacific and the great consumption of fuel. You have to build into the ship so much fuel capacity that you reduce the earning power of the ship very substantially.

Just the law of diminishing returns applies there. You build more fuel in and you take more passenger space.

Is that not the answer, Mr. Paine?

Mr. PAINE. Yes, sir. With the ship of 26 knots we are able to make the round trip on what is presently cheap fuel at Los Angeles prices.

If we go to 28¼, we buy part of our fuel in the Orient for the return trip at a much higher price, and our 28¼-knot ship has a fuel cost per voyage of $120,000 in excess of the 26-knot vessel, so that it does not turn out to be economical.

With the 26-knot ship we carry 9,000 tons of fuel.

Mr. ALLEN. Why is it economical to run 26 knots if you could run it at 23 knots?

Mr. PAINE. At 26 we are able to have a longer, larger ship, and the percentage of crew to numbers of passengers is reduced on the larger vessel. We are able to make up the difference.

The 23-knot ship would meet threatened Japanese competition, but it would not put us in the forefront that we think the American merchant marine should be in the Pacific area.

Mr. ALLEN. That is what I was thinking of, too.

If you had a 32-knot ship out there, you would be in the forefront for the rest of our normal lives?

Mr. PAINE. Yes; we would.

Mr. ALLEN. In your estimation, having in mind that the additional speed as far as construction is concerned would undoubtedly be considered as a national defense feature, would the operating cost still make the ship economically unfeasible if it had the faster speed?

Mr. PAINE. We believe it would not be as satisfactory a commercial venture as the 26.

However, I am sure that the company stands ready to take a ship of higher speed and operate it at the lower commercial speed if that is in the interest of the Government.

Mr. KILLION. That is correct.

Mr. ALLEN. I would think, just expressing one member's view, that we would find it far easier to justify Government financing for a ship that had obviously extreme defense features than we would in getting Government financing for a ship which so nearly approaches the commercial type vessel that the trade required.

Mr. PAINE. Mr. Allen. We had thought that we were following the Navy's wishes.

As I recall Admiral Wilson's testimony, up to 25-knot speed was extremely important. From 25 knots on was still important, but he wanted at least to get them above 25 knots. This ship, when the Navy defense features are added to it, will undoubtedly go in excess of 28 knots.

Mr. ALLEN. Of course, I kind of discount the Navy's crystal ball sometimes.

If I remember correctly, 14 knots was just as much advantage at the beginning of World War II and 17 knots was almost as good after World War II.

Mr. PAINE. Yes, sir. Speeds are increasing, and, as Admiral Mumma pointed out, the submerged speed of submarines is increasing, and the importance of getting ahead of the vessel to be at least drawn on the bow before making an attack is very important, and that is where the speed importance to the merchant vessel comes in.

Mr. ALLEN. You do not have any figures as to what a 32-knot vessel would do with 3½-percent financing as against a 28-knot at 5½?

Mr. PAINE. No, sir.

Mr. Allen, we drew curves beginning with 23. It is the minimum we would consider, and we tried 24, 25, 26, 27, 28¼; we made up

schedules for as high as 32. But in drawing our curve of financial result, we saw the curve began to dip very perceptibly above 28¼, due to this very high fuel cost. This is a very high and important figure.

Mr. ALLEN. Maybe you have the first liner that requires atomic energy; I do not know.

Mr. PAINE. It would be an ideal situation and location for a nuclear-powered vessel as soon as it becomes reasonably economically feasible. That is correct.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Miller.

Mr. MILLER. Mr. Killion, face or prestige is quite valuable in the Orient. It is looked upon much more than it is in Europe and the rest of the world.

Mr. KILLION. Very substantially.

Mr. MILLER. I know that you are familiar with the potential value of the American market in the Far East. Is not this an area of the world that can consume goods which we build, which we manufacture, in surplus, our automobiles, farm machinery, tractors, radios, refrigerators? These people are hungry for these things, are they not, in that market?

Mr. KILLION. Very much so.

Mr. MILLER. And in turn, do they not have things that we need: Hardwood, sisal, rubber, and a dozen commodities that we do not produce here? And is it not true that we can particularly look forward to the time when perhaps the world is a little more settled, there can be a flow of American goods into that area and a flow of goods essential to our economy outward? Is that not right?

Mr. KILLION. Very much so.

Mr. MILLER. This is an area where where prestige is important.

I bring that out, Mr. Chairman, because I noticed that the gentleman from the General Accounting Office the other day stressed the prestige value of these ships. We have mentioned them here from time to time, but, if we have the proper ships, does not that sell us to the people in the Orient as much as anything else that we can do in that area?

Mr. KILLION. It represents America at its best. Prestige in the Orient is a very important factor, as you all know, and it has been our contention that a passenger ship which we propose would enhance America's prestige throughout the area it serves very substantially.

To demonstrate that for a moment, when American President Lines acquired recently four of the Mariner type ships, we proposed to the Federal Maritime Board that we build into those ships some very luxurious passenger accommodations for prestige purpose for these ships that go around the world. They stop at about 24 ports and it had a very fine effect upon our own prestige and upon, I think and I hope, the prestige of the Nation.

Mr. ALLEN. I have seen them and you are to be congratulated for those ships, but I am thinking particularly of Japan, the Philippines, Malaya, that eventually comes into that thing, Vietnam, and these places that are great potential customers for American-made goods and where they have the products with which we can do business and trade.

Do you feel that market is there?

Mr. KILLION. Very much so, and a ship of this kind, it seems to me, would help to stimulate improved two-way trade, Mr. Miller.

Mr. MILLER. The British running out of Vancouver have also maintained prestige, have they not, for that same purpose?

Mr. KILLION. Yes, indeed; and they are now planning to do the same transpacific. They are planning to put in some very fast, new liners.

Mr. MILLER. Have they not, as a matter of fact, got one of those liners projected, the *Arcadia* I beileve the name will be, which will go into the Pacific, and they are projecting others, and is not that one of the reasons that the Japanese were successful in the prewar days?

Mr. KILLION. They had some very luxurious ships.

Mr. KILLION. I do not have any other questions. I think they have all been pretty well explored.

I want to congratulate Mr. Killion on his statement.

Mr. KILLION. Thank you, Mr. Miller.

The CHAIRMAN. Mr. Mailliard.

Mr. MAILLIARD. Mr. Killion, were you given these comparable figures on page 4 of your statement? I am a little bit confused with what you said later as against what is written in here.

First you mentioned a $34 million sale price. Am I correct that that is the figure that matches the $47 million for the United States Lines with 3½ percent financing?

Mr. KILLION. Yes.

Mr. MAILLIARD. I think the record will show that a little after that you brought up this other figure of $32,400,000 as being the equivalent of the $47 million, and I think that is not quite right.

Mr. KILLION. I am glad you asked that. We were discussing it and Mr. Poole, who worked this out, will be very glad to explain it. It is related to the difference between Government financing under the 1936 act and private financing.

Mr. POOLE. The $32,400,000 price would compensate in part for increased cost of private financing.

Mr. MAILLIARD. However, on the $47 million, the United States Lines contemplates Government financing?

Mr. POOLE. It contemplates Government financing.

Mr. MAILLIARD. What would the $47 million figure be for the United States Lines if you threw in the private financing cost; do you know?

Mr. POOLE. It depends on how much you should compensate for it. This figure does not have a great deal of significance. It compensates in part for private financing.

I would not undertake to say what another company would consider as compensation or partial compensation for the extra expense of private financing.

Mr. MAILLIARD. However, it is probably fairly safe to say that the United States Lines would not be content with the $47 million figure if they were required to finance privately?

Mr. POOLE. I presume not.

Mr. MAILLIARD. Pursuing Mr. Allen's conversations about speed, this may be kind of a strange thought, but suppose we built 2 sister ships to the *United States*, 1 for you and 1 for the United States Lines. We might get them cheaper by building two?

Mr. KILLION. Of the same design, same speed.

Mr. MAILLIARD. I will tell you what my question is pointed to. Would this be unsuitable for your trade?

Mr. KILLION. We would have to study that to determine the rate of return on the basis of the total investment involved.

Mr. MAILLIARD. I presume that there could be different configuration, but I am talking about the basic ship, particularly as to defense features.

Mr. KILLION. Congressman Mailliard, I would like to say this: That we, of course, would accept any speed capacity on this ship which would be economically sound and meeting Navy national-defense requirements.

It was my understanding that the speed we suggested was acceptable from a standpoint of national defense. Is that right, Mr. Paine?

Mr. PAINE. That is the preliminary information we have from the Navy.

Mr. MAILLIARD. I am sure that is true, but I also know the way the Navy operates and, if they got a choice between getting a 28- or 29-knot ship and not getting any ship at all, that 28 or 29 knots is going to be satisfactory, but I think what they have done in the case of the *United States* shows they want this 33 knots. And I am just thinking of a problem of selling this project to the Congress.

I think we have to sell it primarily on the defense basis, and I think it would be a lot easier to sell two 33-knot ships than it is going to be to sell one 33-knot ship and one 28. Maybe I am wrong, but I think that that is an easier story to tell as to why you need these very high-speed ships for the protection of our troops in time of war.

I was just wondering what the economics of it would be. I realize that it presents problems to you, maybe having more passengers and maybe increasing operating expenses.

Would you know whether the *United States* could operate in the trade you serve without refueling at the other end?

Mr. PAINE. I am not positive about that. We can look that up and put it in the record.

Our route is a 15,000-mile route, which, of course, is considerably longer than that of the *United States*.

Mr. KILLION. Many times more.

Mr. MAILLIARD. Of course, there is a tremendous difference there and presumably you would not find it economical to operate at quite as high a speed as it is operated at in the Atlantic.

Mr. KILLION. However, the turnaround now on the *Cleveland* and *Wilson* is 42 days.

Mr. MAILLIARD. Your projected vessel is what?

Mr. PAINE. Thirty-two days, Mr. Mailliard.

Mr. MAILLIARD. Offhand, do you think there is any operating advantage in cutting that down?

Mr. PAINE. You have certain costs, of course, that increase, such as fuel and maintenance and upkeep, 4 shafts instead of 2. Certain operating costs are higher. You reduce the depreciation per voyage on your very expensive investment and you decrease the interest per voyage. The increase in fuel at high speed for our particular service more than offsets the decrease in depreciation and interest that we are able to effect.

Mr. MAILLIARD. If we accept these figures that say this ship which you propose is going to cost $76 million, of which you would be willing to pay $34 million, that is going to cost the Government one way or another $42 million, the way I figure it.

You take the *United States* sister ship proposal, the figures run to a cost of $123 million. The company is willing to pay $47 million. We end up with an $81 million cost to the Government.

Then the question really comes down to, Are we better off defense-wise with a troop transport of slower speed for half the price, or should we pay the full price for the higher speed? I think it would be very interesting to at least try to take a look at the question as to whether there is any way of your operating satisfactorily a ship with a very much higher speed.

I presume it means you have to go to a ship of approximately the same size.

Mr. KILLION. I would like to say this: That we do propose at a later date to construct a second ship of this size to replace the *Cleveland* and the *Wilson* when they reach their statutory age limit.

It has been our feeling that 2 ships of this class would do the job that 3 ships are doing, this ship plus the *Cleveland* and the *Wilson*, at the higher rate of speed and higher passenger-carrying capacity.

Mr. MAILLIARD. As far as you can see now, would that second ship probably also be a 26-knot ship?

Mr. KILLION. Yes.

Mr. MAILLIARD. You are not contemplating trying to go above that speed?

Mr. KILLION. Not at the present time, we have not, unless we go to atomic power, as Mr. Paine says.

Mr. MAILLIARD. Going to atomic power, provided it were somewhat competitive in cost, would solve your problem of fueling on the other end, but otherwise, I doubt that it is going to make too much difference as far as being able to produce speed in a certain size vessel. It might be, but that is a long way off. I do not think that would make any appreciable difference.

Mr. PAINE. It might be of interest to the committee and to you, Mr. Mailliard, to know that the normal time of replacement for the *Cleveland* and *Wilson* would call for a keel to be laid in about 6 or 7 years.

Mr. MAILLIARD. Maybe we had better build three ships comparable to the *United States*.

Mr. MILLER (presiding). Would you yield to Mr. Rivers? He has to go.

Mr. MAILLIARD. I will yield to Mr. Rivers.

Mr. KILLION. I would like to say this in reply to Mr. Mailliard.

As you know, one of the major problems of the American merchant marine has been its inability to tailor-make the ships for the routes that it serves. In the past we have been forced to take ships that were built for war purposes. The C–2's, C–3's, and C–4's, and we took the P–2 transports and converted them.

To get the maximum return for a vessel, they should be tailor made for the route. I believe that the *United States* was tailor made to the route it serves. It is an excellent ship, and it is a great credit to the country.

We believe that the ship serving the long haul across the Pacific has to be tailor made in order to produce the maximum return. That we have endeavored to accomplish here.

If speed is another factor, if you want more speed, we will have to gear into the economics of speed, in relation to the investment involved. I just wanted to add that.

Mr. DINGELL. Would the gentleman yield to me?

Mr. MAILLIARD. I already yielded to Mr. Rivers.

Mr. DINGELL. This question is along the line that Mr. Mailliard has been asking.

There is a lot more to a ship than just the hull, but probably the biggest item of expense in ship construction is hull and engines, is that right?

Mr. KILLION. That is right.

Mr. DINGELL. And the other things, the cabin layout and the bunks, and so forth, can be pretty much according to your own specifications. If you were to get a hull and engines along the lines of, let's say, this ship they are going to construct in the Atlantic, could you then go from there and tailor-make a ship, or would that not fall within the meaning of "tailor made" as you used it this morning?

Mr. KILLION. Mr. Congressman, I am not an engineer, but I would suppose that, within the limitations of the dimensions of the ship and the fuel requirements, you could work that out pretty much to a tailormade basis. Whether you would get the rate of return that you would on a different type of hull, we would have to do some figuring on that.

I would say that you could tailor-make it all right, but whether the rate of return would be satisfactory would depend upon some further studies.

Mr. DINGELL. Could you give us some idea how long it would take for you to give information of that sort to this committee?

Mr. PAINE. I believe we can put together information of that type that will give us a very, very close indication of the results within a week.

Mr. DINGELL. Would you have any objection to furnishing that information to the committee?

Mr. KILLION. No. We would be very, very happy to do so.

Mr. MILLER. If you will do that, we will place it in the committee files.

(The information referred to is in the files of the committee.)

Mr. KILLION. The gentleman here who designed the *United States* and who designed our ship could also supply some information to that effect.

Mr. DINGELL. Could you give us some idea of the saving that could be made if this were to be satisfactory to you folks, because after all we have to consider the taxpayers here?

Mr. KILLION. Mr. Congressman, naturally we would like to be as efficient as possible, and we wish to make a rate of return that is reasonable.

Mr. MILLER. Mr. Rivers has to go, and he has some questions.

Mr. RIVERS. Mr. Killion, I, too, am impressed with your fine statement and I am glad you are sufficiently recovered to appear before the committee, and I hope you will not have a relapse.

Mr. KILLION. Thank you very much, and I hope no one here gets the Asian flu.

Mr. MILLER. I hope this Asian flu was not brought to this country by an American line.

Mr. RIVERS. I hope it did not come by the route of foreign aid either.

Some of these people that compete with you have been quite large beneficiaries under the foreign-aid concept?

Mr. KILLION. That is right.

Mr. RIVERS. I will not mention names, because that would serve no purpose. Therefore, you are confronted with that and your overall burden on the American taxpayer under the slide rule of the 1936 act that a lot of people say we ought to stick to.

I notice in your statement about the $34 million if a certain formula were followed. Keeping in mind the potential of your oriental trade, would you be interest, following up the suggestion by my good friend from California, Mr. Mailliard, in considering two ships? I do not think one ship is going to do you. I have in mind the defense and all those features I mentioned when I tried to nail Admiral Mumma to the mat.

If we are going to talk defense, one ship is not enough. I ask this of you because you have to look out for these bondholders and these stockholders. I do not know what street you have in California compared to Wall Street, but there must be one.

Mr. KILLION. It is Montgomery Street.

Mr. RIVERS. You have to look out for those people because they have to look out for themselves. I am not trying to be facetious. I am trying to look at it from a business standpoint.

Keeping in mind the defense feature, plus a formula which you want applied across the board both for the Atlantic and the Pacific, with which I agree—I think it all should be measured as narrowly as possible with the same measuring spoon—would you be interested in the possibility, taking in the economy, of having two ships now as against another later?

Mr. KILLION. Congressman Rivers, I would like to answer it this way: We are interested in building as many vessels—two, yes—if the trade would warrant it and if also the Federal Maritime Board would grant us an operating subsidy which would make it possible to operate these ships at a reasonable rate of return.

Mr. RIVERS. I am talking about the $34 million. If you can get something along the lines of $34 million, would you be willing to consider $68 million and build 2 ships?

Mr. KILLION. If the economics of the situation warrant it, yes.

Mr. RIVERS. You would not say you could not consider it?

Mr. KILLION. No, I would not say that we could not. We are builders and we would like to see the Merchant Marine developed and expanded. We would like to see our own company development expand.

Mr. RIVERS. You might run into a stable condition, and it is bound to some in the Pacific, with all the areas which were referred to by Mr. Miller, and all those areas, and we must remember, out of the 125 or 130 critical items that this country has to have in time of war, we are only self-sufficient by 20 of them, so we are a maritime Nation.

Mr. KILLION. At one time we operated 10 passenger ships.

Mr. RIVERS. That is what I say. We have to keep in mind those things. I do not know whether you could turn around a ship like the *United States* or not. I do not know what you could do if you had a chance to get out there and develop it. You might be able to do a lot of things if you were to have a green light to get out and explore those things with the time to prepare.

When you have to build things in a hurry, you pay a price for anything you need, like a raincoat in the rain. That is just commonsense. If you could develop those things, you might not need to turn around to Mr. Mailliard and his port. You might refuel the *United States* in Pearl Harbor or somewhere in Hawaii, or Guam or somewhere, because we still have a nominal interest in those areas and have title to some of them.

Mr. KILLION. Have substantially, Mr. Rivers, yes.

Mr. RIVERS. You could probably refuel there, so I think we should consider what is adequate now for planning for defense.

Mr. KILLION. You understand, of course, this involves the Federal Maritime Board's studies in relation to essentiality of the route.

Mr. RIVERS. You would not be averse to any such approach?

Mr. KILLION. We would never be averse to such approach if the economics warrant it.

Mr. RIVERS. Can we build what we have in mind under the 1936 act and keep you in business?

Mr. KILLION. In line with the legislation that was introduced, we proposed that it be built at the rate of interest that other ships in the past have been built; that is, 3½ percent.

Then, as testimony here developed, it indicated that possibly it was the general feeling that a fixed price for the ship would be preferable, because of the administration policy of private financing.

Mr. RIVERS. Do you think private financing is out of the question?

Mr. KILLION. At the rate of interest, unless you have a fixed price that will permit it.

Mr. RIVERS. If we had a fixed price, that would be the only answer because you could not get out then and get private financing at 3½ percent or whatever it is.

Mr. KILLION. It would seem to me that a fixed price is preferable under the circumstances.

Mr. RIVERS. Then you would vary from the 1936 act in that regard, would you not?

Mr. KILLION. Yes.

The CHAIRMAN. No.

Mr. RIVERS. I say with a fixed contribution or whatever you want to call it, whatever the Government participation, if we gave you a fixed figure in an act and it exceeded the percentage outlined in the 1936 act, would not that be at variance with the act?

Mr. KILLION. No, that would not be at variance with the act.

Mr. RIVERS. What about if you stuck to private financing?

Mr. KILLION. Of course, the reason why we cannot finance these ships on that basis is the high rate of interest.

Mr. RIVERS. That is what I say. The private financing will not give it to you under the provisions of that act.

Mr. KILLION. That is right.

Mr. RIVERS. So if you have a fixed figure which would exceed the yardstick set on, that would be at variance with the act?

Mr. KILLION. Not on a fixed price, it would not be at variance with the act.

The financing on a fixed price basis which has been proposed here is permissible under the act. I do not know what section. Mr. Poole may know the section of the act.

Mr. RIVERS. That is for defense features and so forth?

Mr. KILLION. That is right.

Mr. RIVERS. That is national interest, is it not?

Mr. KILLION. That is right.

Mr. RIVERS. Thank you very much.

Mr. DREWRY. Would you yield?

Mr. RIVERS. Yes. Straighten me out if I am wrong.

The CHAIRMAN. Let's get this straight right here for the record.

Mr. DREWRY. The 1936 act provides for a formula and after the application of that formula, then, of course, a fixed price is arrived at.

Mr. KILLION. That is right.

Mr. DREWRY. However, the advance determination by statute of a fixed price is not within the concept of the act, is that not correct?

Mr. KILLION. That is right.

Mr. RIVERS. So I am correct.

You get it by putting in the national defense feature.

Mr. KILLION. Yes, that is right. I did not understand that.

The CHAIRMAN. All right.

Mr. Mailliard.

Mr. MAILLIARD. Pursuing briefly this question of speed, I will say that I have grave doubts, with the advances that are taking place, that a 28-knot ship is one-tenth as safe as a 33-knot ship, and I do think we are going to have to sell this special case proposal largely on the basis of defense.

Just looking at your operations, if I understand you correctly, you testified that the British are talking about coming into this very same trade, competing with you with what, a 27-knot ship?

Mr. KILLION. It is 26 or 27.

Mr. PAINE. The ship would be capable of 27, similar to ours. Their horsepower is reported to be 80,000, which puts it right in line with the speed of our vessel.

Mr. MAILLIARD. They have already laid the keel, have they not, for one of their ships?

Mr. PAINE. They have laid the keel of 1 of the 2. The other keel will be laid very shortly.

Mr. MAILLIARD. So here we are talking about coming along with practically too little too late. They will be there first with an equal ship.

Mr. PAINE. That is correct. Their ship will be ready possibly a year before ours.

Mr. MAILLIARD. So that not only are we not getting the ideal defense speed, but there is some question about whether we are not losing the prestige we are after too.

Mr. PAINE. I would not want to give out the probable speed at which this could be made available if it is national defense speed, but we have reasonable assurance that we will have the blue ribbon of the

Pacific after these British ships are built with the ship we propose to the committee.

Mr. MAILLIARD. Also, as pointed out in your own statement, in approximately 10 years from now you are going to have to build at least 1 additional ship?

Mr. KILLION. About 6 or 7 years from now.

Mr. MAILLIARD. You would have to start it?

Mr. KILLION. Yes.

Mr. MAILLIARD. So you are committing yourself now to a ship which probably does not just project itself 20 years into the future, but more like 30 years into the future, because, when you go to build another one, you are going to have to face the fact that you are going to have a comparable ship or you are going to have again an unbalanced operation which is certainly difficult to handle.

So we are really making a pretty long-range decision here.

Mr. KILLION. Yes, very long range.

Mr. PAINE. We do have leeway in our route. Our route is not a port and return route. Our route goes to Los Angeles and Honolulu. The faster ships would go to Los Angeles. The slower ship would omit Los Angeles and go direct from San Francisco to Honolulu. We have some leeway, Mr. Mailliard, in adjusting a reasonable difference between the speeds of the two vessels.

Mr. MAILLIARD. As long as you are not going to omit San Francisco, it is all right with me.

Mr. PAINE. We assure you we will not, sir.

Mr. MAILLIARD. That is all.

The CHAIRMAN. Mr. Gross.

Mr. GROSS. So the British are coming over in the Pacific with a so-called superliner, is that right?

Mr. KILLION. Three of them.

Mr. GROSS. They are coming in to give you some competition, yet United States taxpayers rescue the British economy at least once every 12 months. That makes a lot of sense.

I recognize prestige and face as having some value, but I am not unmindful of the fact that the British, the French, and the Dutch, have lost a lot of face in the Pacific in the last few years, and I do not attach too much importance to that over a long period of years. We can fall flat on our faces out there, too, and I do not agree that we need too many ships to haul too many Asiatic imports into this country.

I have a knitting mill in my district that is in trouble right now from the imports of Japanese made gloves and mittens. We cannot compete in Iowa with 13 cents an hour Japanese labor.

I understand that the tuna people are in trouble on the west coast, too, from Japanese imports. Be that as it may, a while ago you spoke of I believe a 10-year mortgage on the ship that you are building?

Mr. KILLION. It was 20, but we were locked in on the interest rate for a period of 10 years.

Mr. GROSS. You mean that you cannot get money from private financing except on a locked-in basis; that there is no multiple-payment provision and you cannot get a multiple-payment provision?

Mr. KILLION. We were not able to. Mr. Poole here negotiated the loan in New York, and he might explain it to you on the locked-in basis.

Mr. GROSS. I do not want to belabor the point, but it was very interesting.

Mr. POOLE. I can answer it rather quickly, Mr. Gross. The negotiations wound up by having the privilege of making certain prepayments of a limited nature. To be more specific, during the first 10 years a total of $2 million in prepayments could be made, but no more. After the 10 years the loan can be refinanced if conditions warrant it, with a certain scaled-down penalty.

Mr. KILLION. But the interest remains 5½ for the 10-year period.

Mr. POOLE. The interest remains 5 percent plus one-half of 1 percent insurance premium.

Mr. GROSS. That is a pretty tough financial deal; is it not?

Mr. KILLION. Yes; it is. That is why we are here.

Mr. GROSS. What is your passenger capacity now?

Mr. Morse in his statement pointed to the fact that there has been 90 percent utilization of the *United States* during 1956 and for the first 9 months of 1957. Do you presently have passenger capacity to take care of all the passengers who seek passage?

Mr. KILLION. On the first-class on the *Cleveland* and the *Wilson*, we have been very hard pressed over a period of time, and there has developed a very substantial backlog, except in one period of the year, and that is during the Yuletide season. People do not travel then. We have had space then, but on the *Cleveland* and the *Wilson* there has been a tremendous backlog and there has been a growing demand. People have taken to the airlines and as a result, the airlines have increased their flights.

The Japanese airlines have come in and the Philippine airlines, and the American lines have increased their flights in the transpacific.

Mr. GROSS. That brings up another point. Would not the highest possible speed that you can economically use be an attraction in competition with the airlines?

Mr. KILLION. We feel, Mr. Congressman, that speed is a factor. When you get to speed in comparison with airlines, of course, then you are outclassed on speed.

Mr. GROSS. However, you still have something to play on; do you not?

Mr. KILLION. Yes; you do. We feel, however, that there are just a lot of people who want to travel in a more comfortable way and they travel by ship.

We have made studies and surveys. We have questioned thousands and thousands of people and we find that speed is not always the factor in making a trip.

Mr. GROSS. However, you are not going to be able to compete with new British ships unless you have equal or better ship? Do you not think that this is an attraction?

Mr. KILLION. I agree with you that speed, in this particular case when you are comparing speed with another ship, is a factor.

Mr. GROSS. I mean from the standpoint of the public attraction to your transportation.

Mr. KILLION. Yes.

Mr. GROSS. What I am thinking of is the wiseness of Government investment in helping you people, with the potential then that you can

develop and the methods by which you develop that potential of revenue.

Mr. KILLION. It was our conclusion after consultation with the Maritime Board and with the Navy that the speed of the ship that we are here proposing for the long haul across the Pacific would meet all the requirements.

Now, if it is the feeling that additional speed is essential, we are certainly not adverse to that, providing of course that it does not by itself make the ship uneconomical.

Mr. GROSS. That is right.

Mr. KILLION. That is a factor we have to take into account.

Mr. Paine here with his designers, and he is working with the design and engineering section of the Federal Maritime Board, have reached the point here where they think this speeed would produce a reasonable return and yet meet other national defense requirements. However, if it is felt that the ship of greater speed is essential, certainly we will gear right into it with enthusiasm. We are not averse to that at all.

Mr. GROSS. I just think it is a fantastic situation when we support the economies of foreign governments and they build liners to compete with us, and then we are confronted with a situation of this kind. I do not understand it. It is beyond belief.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Curtin.

Mr. CURTIN. I have no questions.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

May I ask you if you have computed the turnaround on a 32-knot ship? I think you said you did not figure out a schedule.

Mr. PAINE. Yes, sir; we computed 32 knots.

I believe it was 27 or 28 days. The port time, of course, is about the same for all ships. The only place you gain is on the sea time. I will supply that for the record.

(Information was not available at time of going to press.)

Mr. ALLEN. It is getting almost to the point where, at 33 knots, 1 ship would make as many trips as the present 2.

Mr. PAINE. Of course, the number of passengers per year is the way we figure it, and the higher speed and the larger capacity of the sister ship of the *United States* would add greatly to the number of passengers per year.

I might add for your information—I think you would probably be interested—that another line, in fact a subsidized line, has figured that about 26, 27 knots was the proper speed for the transpacific, and the British lines have apparently come to the same conclusion.

I think our conclusion is probably correct, but certainly the wishes of the committee concerning the investigation for higher speed will be given prompt action.

Mr. ALLEN. Does the British ship run the same route, or a shorter route?

Mr. PAINE. They are reported to run the same route except we believe that, in leaving Honolulu, they may go directly to Vancouver to avoid the restriction that they would suffer on local travel from Honolulu to San Francisco. They would not be allowed to lift

Honolulu to San Francisco passengers. By going to Vancouver, they would be able to.

Of course, the British ship, I trust the committee understands, takes the Pacific leg of their voyage in addition to their England, to Singapore, and to Australia service. They are not putting ships in the Pacific specifically for the transpacific trade.

The CHAIRMAN. Mr. Drewry.

Mr. DREWRY. I have just one question, Mr. Killion.

Mr. Morse presented some figures the other day in regard to the financial results of operating the proposed ships. In comparing the replacement for the *America* and the transpacific lines it came up to the point that on Government financing the return on capital necessarily employed would be 3.7 percent; is that right?

Mr. KILLION. 3.7 percent?

Mr. DREWRY. Yes, and similarly, when private financing was considered, it came to 2.15 percent.

Mr. KILLION. That is right, 2.15 percent.

Mr. DREWRY. In your statement which was read the other day in your absence, the hazards of a passenger ship operation were mentioned. What would be the effect of losing one voyage for whatever reason that might be?

What would be the loss to the company on losing one voyage?

Mr. KILLION. I think, if I recall, that in the statement I said I thought it would be disastrous, but you want specific figures which I will have to supply you.

The loss on one voyage is $539 thousand, Mr. Poole advises me.

Mr. DREWRY. When you take into account the consideration of such a thing and you figure 11 round trips a year for this ship, then is the Government really sufficiently protected in keeping you in this venture if your return is as low as that and is susceptible to such disastrous results for a thing like the loss of one voyage?

Mr. KILLION. The loss of 1 voyage, even on the *Cleveland* or *Wilson*, or I imagine the loss of 1 voyage even on the *United States*, would have an adverse effect naturally on the earnings of the line.

Mr. DREWRY. My point is that when you take on a ship of this kind, you are doing it because of the already clearly fully expressed need of the United States of America for such a ship, are you not? In the figures you have presented so far, cutting yourself too close to the bone, a term I think you used, to give a reasonable comfort to the United States that is trying to keep you in business so that you can keep the shipping?

Mr. POOLE. Mr. Drewry, the 2.15 percent is on a basis that we did not propose. That is the return that would be made with the private financing, and we have said that we cannot afford to pay private financing and we think it would be unsafe for both the Government and ourselves.

Mr. DREWRY. I understand that, but even on the other is not your margin so slender as to make you something of a shaky risk for the Government to expect you to be fully solvent in the operation of that big ship?

Mr. KILLION. Under private financing. That is why we are asking that the ship be built on a different basis.

Mr. DREWRY. You think you have plenty of margin with the 3.7 or whatever it is?

Mr. KILLION. Mr. Poole was telling me the return there. That is why we believe that a fixed price on that basis would indeed be preferable.

Mr. DREWRY. Mr. Morse indicates a return on a 3½ percent basis of 7.36 on capital employed for the United States Lines, and General Franklin has certainly very forcefully, and I believe convincingly, indicated that that rate of return was none too big to keep the replacement for the *America* going; and I wonder whether 3.7 under Government financing is an adequate rate for you people?

Mr. KILLION. Not adequate.

Mr. DREWRY. Although, in your effort to come in as close as possible to the existing law, you were willing to take that risk?

Mr. KILLION. We wanted to show the committee and the Maritime that we would be willing to go as far as possible, but in our anxiety also to show that private financing would be almost impossible, if not, disastrous.

Mr. DREWRY. I understand that Mr. Morse felt that the rates of return involved were not prudent rates. I was wondering whether you were at odds with his position on that.

Mr. KILLION. Unfortunately I was not here when he testified, but I have read his testimony and the figures he presented, which we have analyzed, do indicate that we are in agreement in respect to the rate of return, the narrow, small rate of return.

Mr. DREWRY. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Miller wants to call the attention of the committee to the fact that there are some west coast people present.

Mr. MILLER. Mr. Chairman, I just wanted to recognize the presence of Mr. Louis Ets-Hokin in the audience. He is the chairman of the Governmors Committee on Shipbuilding in the State of California. I am very happy to see him.

The CHAIRMAN. The committee will recess until 2:30.

I regret that we did not get through this morning, but certainly all of you understand the situation. We will recess until 2:30.

Thank you.

(Thereupon, at 1:05, the committee recessed, to reconvene at 2:30 p. m. same day.)

AFTERNOON SESSION

The committee reconvened at 2:30 p. m., upon expiration of the recess.

The CHAIRMAN. The committee will come to order.

General Franklin.

STATEMENT OF MAJ. GEN. JOHN M. FRANKLIN, PRESIDENT, UNITED STATES LINES CO., ACCOMPANIED BY C. D. GIBBONS, VICE PRESIDENT AND TREASURER, AND R. M. HICKS, EXECUTIVE VICE PRESIDENT—Resumed

General FRANKLIN. Mr. Chairman, I want to be just as sure as possible that all of the statements that we have made for the record are supported by facts.

I would like to briefly discuss this question of speed in connection with the new North Atlantic ship, the new steamship *United States*.

There has been a great deal of discussion before this committee relative to the difference between 28½ knots and 30.7 knots which is the speed at which the steamship *United States* has operated between lightships since she came into service with the exception of her maiden voyage when she averaged 35.59 knots eastbound and broke the transatlantic speed record by 3.9 knots.

The steamship *United States* on her regular schedule leaves New York at noon on Friday and arrives at Le Havre, France at about 2:30 Wednesday morning. She sails from Le Havre at noon and arrives in Southampton at 6 that evening. She leaves Southampton with westbound passengers at 1 on Thursday, proceeds to Le Havre, from which port she sails at midnight and arrives at New York on Tuesday morning at 8.

The ship makes 23 round voyages per annum.

Mr. Gibbs advises me that a ship with the same passenger capacity as the steamship *United States* with one engineroom and two propellers could maintain a speed of 28½ knots and reach a maximum speed of 30 knots. Such a ship could keep approximately the same schedule as the steamship *United States* with the exception that she would arrive in New York Tuesday afternoon instead of Tuesday morning. She could still sail on Friday at 10:30 a. m.

In other words, such a ship would make as many round voyages per annum as does the steamship *United States* on her present schedule and carry the same number of passengers.

The steamship *United States* on her present schedule has more time in her home port, New York, than she actually requires.

It is interesting to note that the two Export liners, *Independence* and *Constitution*, are turning with less time in New York than is the steamship *United States*. The two *Queens* have averaged for 5 years, July 1952 to June 1957, slightly more than 28 knots and have maintained a 2-week return.

The 28½-knot ship discussed above would have one engine room. The saving in crew, as compared with the steamship *United States*, which ship has two enginerooms, would be 32 men.

This reduction would represent a saving of approximately $20,000 per month.

We have been operating the steamship *United States* at an average speed of 30.7 knots. At this speed we can arrive in New York at 8 a. m. There are a number of other respects in which it is very convenient to be able to run at 30.7 knots, but none of these conveniences are so important that we would ever think of paying an additional $9 million for them.

Now, I think it was Mr. Gross who brought up the question of the new French ship which will be our toughest competitor. And I have been looking into that.

So far as I can find out, the French Line, which will own and operate the new *France*, I think they are going to call it—39 percent of the stock of that company is owned by the French Government.

So the money that is being put up, as Mr. Morse testified—some money is being put up by the French Government—I presume that is money that is required to finish this ship which is not now in the till of the French Line.

I presume that.

Now, Mr. Marie—and if this statement isn't correct—I haven't had time to confirm it absolutely—Mr. Marie, who is the president of the French Line, as I understand it, is also manager of marine and aviation for the French Government. So that seems to me strictly—the Government owns 39 percent of the stock.

Now, Mrs. Sullivan asked what about the cost of the fuel for the steamship *United States*.

In 1957 the cost of the fuel for the steamship *United States* was right on $3 million, almost exactly $3 million.

Now, I have another brief statement, Mr. Chairman, or shall I stop now?

The CHAIRMAN. Proceed.

General FRANKLIN. I have read carefully the testimony of Mr. Rothschild and Mr. Morse.

Mr. Rothschild stated, as I understand his testimony, that the Commerce Department favors the building of a second steamship *United States* as a replacement for the steamship *America*. He further stated that this ship should be built under the terms and conditions of the 1936 act and that the 75 percent of the price at which the vessel is sold to the ship owner should be borrowed privately.

Mr. Rothschild further stated:

> I spent quite a few years in business before I came into the Government and I can recall no instance in my experience when a purchaser, and that is in this case represented by the United States Lines, made his first bid his final bid.

I would like to make it perfectly clear to this committee that we have made a conscientious effort to arrive at the price we can afford to pay and we are not engaging in bidding.

In my opinion we have exhausted all possibility of having this ship built under the terms and conditions of the 1936 act. In spite of what Mr. Rothschild says, the United States Lines is not prepared to pay more than $47 million for the ship in question and then only on the basis that the money can be borrowed at 3½ percent—or at whatever price the Government is paying for long-time money—and only providing we can sell the *America* for $10 million.

I have laid all the figures before your committee and I am perfectly prepared to see that the General Accounting Office is given any figures that they require. I consider that the proposal of the United States Lines is fair to the Government and to the company, and I think it is only proper to repeat at this time that the figure is all that we feel we can afford to pay with any chance of coming out with even a very small profit.

In my opinion if the ship is to be built it is essential that H. R. 9342 presently before your committee is passed.

Mr. Rothschild says that all our calculations of earnings should be based on capital necessarily employed, which is what he believes the 1936 act indicates should be done, and he seems to say there is no justification for taking borrowed money into account.

It is true that the 1936 act for purposes of recapture requires that the calculation be based on capital necessarily employed which is defined by the Maritime Administration from time to time in its general orders and is strictly for accounting purposes.

In my judgment this is not a sound basis for use in appraising a business risk that would involve a cash investment of $11,750,000 and the borrowing on mortgage of $35,250,000. It is not enough to consider only the cash investment at a given time. In any period of reduced earnings the mortgage constitutes a heavy burden and might have to be serviced out of the company's reserves. Earnings that would be adequate on $11,750,000 investment would not be adequate in the operation of a $47 million ship, even though part of the $47 million is represented by mortgage indebtedness.

Mr. Morse, in referring to this matter of mortgage indebtedness, pointed out that United States Lines could default and that all the company would stand to lose would be its equity on the new ship, $11,750,000.

I can't imagine what my position would be if I had to explain to our directors and to our stockholders that we were proceeding on a venture and that if things went seriously against us all we would have to do would be to turn the ship back to the Government and lose the $11,750,000 that we put into it.

This is a very large sum of money and I don't think the management could excuse itself if it had depended only upon earnings with respect to capital necessarily employed in determining the amount it could pay for the vessel.

I can't forget that the Munson Line, the Dollar Line and the old United States Lines came to grief due, in part, to the fact that they were overburdened with mortgage indebtedness when the depression overtook them.

I am pleased to say that there is no difference between the operating estimates used by Mr. Morse and those which we used.

We related the earnings to cost of the vessels, but Mr. Morse related them to capital necessarily employed, which includes the company's equity in the vessels and allocation of working capital and other assets.

I am glad that Mr. Morse did this, because I feel that it demonstrates quite clearly that even on that basis $47 million is the maximum amount that we can afford to pay for a new ship.

Mr. Morse's figures show that with a $47 million sister ship and with a 3½ percent interest rate, the return on capital necessarily employed would be 6.8 percent.

On a $56 million ship, using private financing with a 5-percent total rate for interest and mortgage insurance fees, the percentage return would be only 1.6 percent of capital necessarily employed.

As you gentlemen well know, section 606 (5) of the Merchant Marine Act, 1936, amended, sets 10 percent of capital necessarily employed as the standard to be applied in determining recapture of subsidy by the United States Government. If in a 10-year period, the net operating profit of the operator has averaged less than 10 percent of capital necessarily employed—as determined by the Maritime Administration—there is no subsidy recapture, but if the average annual earnings during the 10-year period exceed the 10 percent level, then the United States Government takes one-half of the earnings in excess of 10 percent as a recapture of subsidy.

There is no provision in our subsidy agreement that the operator will be paid additional amounts of subsidy to guarantee to him a

10 percent return, and if we fail to do so that is our misfortune, but we feel that section 606 (5) of the act pretty well establishes that Congress considered a 10 percent return on capital necessarily employed as reasonable earnings under the operating-differential subsidy agreements.

With this in mind, we point out that a 6.8 percent return on capital necessarily employed applicable to a $47 million vessel is far below the 10 percent standard, and a 1.6-percent return on a $56 million ship is ridiculously low.

I also think it would be well to straighten out the record in the matter of the average interest rate that the United States Government pays for its long-term borrowings.

Mr. Rothschild stated that interest rates have been softening, but that the going rate is still higher than 3½ percent.

As you gentlemen may recall, I testified earlier in this hearing that the interest rate on outstanding United States Government long-term bonds ranged from 2½ percent to 4 percent and averaged 2.60 percent. We obtained this information from one of the large New York banks, which stated that the average of 2.60 percent was on the 14 outstanding Government issues which can properly qualify as long-term bonds.

Furthermore, just a week ago, the United States Treasury offered, in exchange for several issues that would mature in the near future, a 3½ percent Treasury bond to mature February 15, 1990, 32 years from its date of issue.

From these facts, it seems evident that the going rate on United States Government long-term securities does not exceed 3½ percent at this time.

I would also like to remind the committee that I previously stated that United States Lines Co. is willing to pay the Government 3½ percent interest, or the prevailing interest rate paid by the Government for long-term loans, whichever is higher, if the Government will lend the company 75 percent of the $47 million purchase price of the new passenger vessel.

In conclusion, I cannot too strongly urge that H. R. 9342, or a similar bill, be passed.

Thank you.

The CHAIRMAN. That concludes your statement?

General FRANKLIN. Yes sir.

The CHAIRMAN. Mr. Robeson?

Mr. ROBESON. No questions.

The CHAIRMAN. Mr. Tollefson?

Mr. TOLLEFSON. Mr. Chairman, I think in Mr. Morse's statement, there was a statement to the effect that because of additional costs in connection with private financing there should be deducted a three-fourths of 1 percent figure from the return figures that you have cited.

In other words, if the United States Lines paid $47 million for their share of the ship on Government financing, the estimated return on the amount of money invested would be 6.8 percent. And I think, as I recall it, that he agreed three-fourths of a percent should be deducted from that.

And under private financing, the return would be—or on a $56 million ship using private financing, the return would be 1.6 percent.

And he said that three-fourths of a percent should be deducted from that. So that actually using his figures, your return would be three-fourths of a percent less than the items you have mentioned in your statement.

That is as I understood his testimony.

General FRANKLIN. I would like to ask these financial experts here what they think of that.

Mr. HICKS. That is correct.

Mr. GIBBONS. That is correct; yes, sir.

Mr. MAILLIARD. I can't see how you are going to take that three-fourths of 1 percent off the 6.8 because that is Government financing.

Mr. TOLLEFSON. That is correct.

General FRANKLIN. I think that is right, sir. I think that is right, Mr. Tollefson. I think Mr. Mailliard is right too. I don't think you can take it off either of them because my figures are based on Government financing. And there is no guaranty.

Mr. TOLLEFSON. So that if you were compelled to use private financing, whatever figure the Administrator used you would have to deduct an additional 3 percent of the estimated earnings.

General FRANKLIN. Three-fourths of a percent.

Mr. TOLLEFSON. I mean three-fourths of a percent.

General FRANKLIN. That is for private financing. I think that is right, Mr. Tollefson.

Mr. TOLLEFSON. At the bottom of your page 3 and the top of your page 4, you make reference to section 606 (5) of the 1936 act which sets 10 percent of capital necessarily employed as the standard to be applied in determining recapture of subsidy by the United States Government. You are talking about operating subsidy?

General FRANKLIN. That is right, sir.

Mr. TOLLEFSON. As I understand your position, you feel that the operating subsidy is a different thing that the construction subsidy?

General FRANKLIN. Yes, sir; that is right.

Mr. TOLLEFSON. But nonetheless, with respect to construction subsidy, the statute sets 10 percent as a reasonable return.

General FRANKLIN. Well, sir, I would say the operating subsidy—the 1936 act states that an operator should be allowed 10 percent on the capital necessarily employed prior to recapture.

After that, half goes to the Government, and half into the special reserve fund.

Mr. TOLLEFSON. So that the statute recognizes that—or takes the position, if you want to interpret it that way—that 10 percent is a reasonable return.

General FRANKLIN. I would say to you that the Congress decided in their wisdom when they passed the act that the 10 percent was a reasonable return in this business.

Mr. TOLLEFSON. But actually they went one step further and let you keep 50 percent of the return in excess of 10 percent.

General FRANKLIN. I think that is a sound statement, yes.

Mr. TOLLEFSON. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Miller?

Mr. MILLER. No questions.

The CHAIRMAN. Mr. Mailliard?

Mr. MAILLIARD. One question, Mr. Chairman.

I think you were here when we got into a little colloquy about the *America*. In your statement here you talk about a cash investment of $11,750,000 and a mortgage of $32,250,000—what about the $10 million you get out of the *America*?

General FRANKLIN. Well, I think that is a very good question.

We think we can sell the *America* foreign for $10 million. Of course we would like to have the right to sell foreign, if we can get $10 million for her.

Or have the Federal Maritime Board follow their—I would think that is a pretty usual practice—of allowing the foreign price on ships turned in against new construction.

Mr. MAILLIARD. But somehow wouldn't that come off of this? Or do you just consider the *America* as $10 million cash in the till?

General FRANKLIN. It is part of the $47 million.

Mr. MAILLIARD. Well then it would really be more accurate to say that a cash investment of $1,750,000, the value of the *America* $10 million, and the mortgage was $35,250,000.

Mr. HICKS. If you sold it, you sell it for cash. And you would invest that cash in your new ship.

Mr. MAILLIARD. Well it is the same as cash except as she stands now on your books you can't sell her without permission from somebody else.

Mr. HICKS. That is correct.

Mr. MAILLIARD. She is scrap up until then, I presume.

General FRANKLIN. What you said the other day is a hundred percent right. I listened to what you said.

The only thing we can do with the *America* is to sell her for scrap, sell her to the Government for turn-in, or sell her to another line to be operated under the American flag, unless we get permission of the Federal Maritime Board.

Mr. MAILLIARD. What is she worth on your books?

Mr. HICKS. About $1,900,000.

Mr. MAILLIARD. What is she worth for scrap?

General FRANKLIN. Mr. Shapiro told me he would give us $1 million for her.

Mr. MAILLIARD. Actually her scrap value is even less than her book value right now?

General FRANKLIN. That is right.

Mr. MAILLIARD. I confess I do not really know how that ought to be shown in here. But somehow it seems to me that is a factor, that one of the items in this arrangement is going to be for you to be able to get full value out of the *America*.

General FRANKLIN. We have not tried to hide that, Mr. Mailliard. We have come right out and said we had to get $10 million.

Mr. MAILLIARD. You said you would not make a deal unless you did.

General FRANKLIN. That is right.

I think the way you express it is exactly right.

Mr. MAILLIARD. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Dellay.

Mr. DELLAY. No questions.

The CHAIRMAN. Mr. Pelly.

Mr. PELLY. I think you were here when Mr. Morse indicated that one avenue open under the act of 1936, as it is presently on the statutes, would be if the special legislation were passed to provide that the normal commercial speed was 28½ knots, and that there was leeway then in your negotiations with the Maritime Board to work out this deal without, say, a $47 million price, to do it under existing law.

And to my query he indicated that it would be necessary to provide that there would be no penalty if you ran her over that 28½ knots, say, up to 30.7 knots.

Would you agree with Mr. Morse's statement in that respect; and would you be satisfied if this bill were amended in that respect?

General FRANKLIN. Well, as I understand your question, Mr. Pelly, it is this: If Mr. Morse and the Federal Maritime Board would take the position that the 28½ knots ship was the ship required for commercial purposes and we were allowed the national defense features over and above—for the difference in the cost of a 28½ knots ship, and a ship with the power and the speed of the *United States*, and then we were given 45 percent construction differential subsidy, we would get down to $47 million.

Mr. PELLY. I think that Mr. Morse indicated that he was thinking in terms of 42 percent construction.

General FRANKLIN. Now, he talked between 42 and 47 percent. I do not know just what figure it was.

Mr. PELLY. I think he talked about the one for the Pacific coast up to 47. But he certainly indicated at one point in his testimony that 42 percent construction subsidy was what he had in mind as far as your ship was concerned.

General FRANKLIN. Well, 42 percent would not do it.

Mr. PELLY. It would not do it?

General FRANKLIN. No, sir.

Mr. PELLY. That is the point I was trying to make.

General FRANKLIN. No, sir.

Mr. PELLY. That is all.

Mr. MAILLIARD. I did not interpret Mr. Morse as saying that. I interpreted him as saying that at the early stages of discussion it looked like 42 percent, but their thinking now was 47 percent, both for your ship and the Pacific ship, I believe.

General FRANKLIN. I am not clear on that, Mr. Mailliard. But the fact is we worked it out that if we could get $44 million national defense allowance, which is the same percentage of national defense allowance as we got in the case of the steamship *United States*, and a 45-percent construction differential subsidy, it would bring this ship we are talking about under this bid of the New York Shipbuilding Co. down to $47 million.

I would just like to add here that Mr. Morse and the Federal Maritime Board were certainly entitled to their view as to what is the proper speed they should use in their calculations. If they use a 30.7 knots speed, which is the speed they say they are going to use, because that is the speed at which the ship has been running—and we do not dispute that, the logs show it—then there is no possibility of the ship being built under the 1936 act. I come to the conclusion that there is no possibility of this ship being built unless you gentlemen get this legislation passed.

Mr. MAILLIARD. That is all.

The CHAIRMAN. Mr. Gross?

Mr. GROSS. Thank you, Mr. Chairman.

General Franklin, I am curious about this cash sale for $10 million to a foreign buyer.

Would you be paid cash American money for ships sold foreign? How would that deal be handled?

General FRANKLIN. You cannot tell, Mr. Gross, what you can get for a piece of property until you really offer it for sale.

Mr. GROSS. Let me put it this way: Assume you could get $10 million for this ship; would you be paid $10 million American money for it?

General FRANKLIN. I do not know whether you would or not. But I think the ship would run to this country. And if you took a mortgage, you would always be in a position of libeling the ship.

Mr. GROSS. My interest is to this extent; whether you would be paid by some slight of hand in counterpart funds or something of that kind; and the Government would eventually by some other means provide you with American dollars?

General FRANKLIN. As long as I am president of the company if we sell the ship, we are going to be certain that we are going to get paid. I do not think we will get it from the Government.

I think we could get it from whatever line bought it, because I think this: That we would probably sell the ship for transatlantic operation.

And, in my opinion, the ship would earn dollars for whoever bought it.

Mr. GROSS. Well, my only interest is that the foreigners generally do not seem to have any money. Perhaps foreign shipowners do, I don't know. But the foreign governments and at least a lot of foreigners do not seem to have any money to pay us for anything. We have to give them everything.

I just wondered if there was going to be some hocus-pocus; some slight-of-hand financing in a deal of that kind.

I understand you have not gotten up to the point of making a deal yet.

General FRANKLIN. No, sir.

Mr. GROSS. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Drewry.

Mr. DREWRY. Just one point, General Franklin.

In regard to the sale of the ship foreign, when that times comes you will have a hundred percent equity in the ship whatever her residual value is; is that right; at 20 years she is your ship lock, stock, and barrel if you have kept up the payments?

General FRANKLIN. That is right, yes; Mr. Drewry.

Let me ask Mr. Hicks: That ship reaches 20 years of age in 1960, and then there will be no mortgage; the mortgage will be paid off?

Mr. HICKS. The mortgage is already paid off. We prepaid our notes. We have no notes on the *America*.

Mr. DREWRY. What I wanted to get very clear is that as far as your selling it foreign is concerned, you are in no different position than any other American shipowner, subsidized or nonsubsidized? That has nothing to do with this picture?

General FRANKLIN. No, sir. It has nothing to do with this picture at all. No American ship can be sold foreign with a change of flag without the approval of the Federal Maritime Board.

Mr. DREWRY. That is based on the 1916 act of World War I, to allow the Government to keep its hands on things that might be needed in the national interest?

General FRANKLIN. You know more about that than I do. I think that is correct.

Mr. DREWRY. Then if they refused to permit the *America* to go, then they have the trade-in route which is supposed to put you in an equal position with any other owner of property to allow you to be reimbursed for the value of the property which the United States won't let you dispose of as you see fit.

General FRANKLIN. That is the basis, as I understand it, of taking American-flag ships as a trade-in on new construction at the world market value of the ship rather than the American value.

Mr. DREWRY. I just wanted to be sure it was clear for the record that when there is talk of the cash outlay, that this ship at that time is a part of your cash. I mean it is an asset equivalent to cash.

General FRANKLIN. Yes.

Mr. DREWRY. It is yours; it is not something that just because you got it through subsidy isn't yours? But it is yours in fact just as much as if it was represented by actual dollars in hand?

General FRANKLIN. The fact that the ship has been subsidized would have no bearing on the situation, as I understand it.

Mr. DREWRY. That is all, Mr. Chairman.

The CHAIRMAN. Thank you very much, General Franklin.

General FRANKLIN. Thank you for your courtesy, sir.

The CHAIRMAN. Mr. Casey.

We are glad to have you, Mr. Casey.

STATEMENT OF RALPH E. CASEY, PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE

Mr. CASEY. Thank you, Mr. Chairman.

My name is Ralph E. Casey. I am president of the American Merchant Marine Institute. I am appearing here today in behalf of the institute in support of this bill to build a sister ship to the *United States*.

I have no prepared statement, Mr. Chairman. And I would not ordinarily take the time of this committee to come before you in support of a bill of this kind. I would have preferred to have filed a written statement. But I have had some experience in past years with this type of problem. And I thought there might be some questions that I might be able to answer as the record of this hearing was made.

I do have a few comments to make, however.

I unfortunately have not been at all of the hearings, but I have read the statements of all the witnesses. And I have listened to a portion of the oral testimony and questions and answers. I want to say that I think that it is firmly established in the record before this committee that there is a need for this ship both commercially and from the standpoint of national defense.

I am not going to dwell on that.

As you know I appeared before this committee in July of 1956 and gave some statistics and testimony at that time as to the deficiency in our passenger fleet. That record has been supplemented in the hearings that you have held here during the last five or six days.

Mr. Morse made an excellent statement, much more ably than I could have in the first seven pages of his written statement showing the development of passenger travel in the Atlantic and the need for this sister ship to the *United States.*

Admiral Wilson and Admiral Mumma have made excellent statements on the defense angle. Even the question I was going to touch on I understand already has been brought out, and that is the need today more than ever for increasing the prestige of the United States throughout the world and no one is going to deny the prestige that we have obtained from the *United States* and the added prestige we would get from a sister ship to the *United States.*

The sole issue as I see it before the committee is whether or not special legislation is needed to build this ship. As you know, section 212 of the Merchant Marine Act of 1936 incorporated in the act in the very beginning by the framers of the act directed that studies be made by the Maritime Administration and the industry to devise ways and means by which express liners and superliners could be built.

To me it indicates a recognition from the very beginning, from 1936, that there might arise occasions during the course of that act when the act itself would not prove adequate to build this particular type of passenger and superliner ship.

I think that is the situation you have got confronting you today. I will try to touch on that a little bit.

The CHAIRMAN. Mr. Casey, let me interrupt you. I would like to have this section that you refer to in the record.

Mr. CASEY. I will read it:

The Commission is authorized and directed—

and then I will skip to subsection B—

to study and to cooperate with vessel owners in devising means by which—

and then I will skip sub 1 and go to 2—

there may be constructed by or with the aid of the United States express liner or superliner vessels comparable with those of other nations, especially with a view to their use in national emergency and the use in connection with or in lieu of such vessels of transoceanic aircraft vessels.

As I say, I think that is an extremely important thing to see that as far back as 1936 the framers of the act felt it necessary to put this kind of provision right in the act. And obviously it would not be necessary to put it in unless they contemplated there might be situations where you might have to do something other than what they have already done in the act itself.

Now, I am further fortified in the position that I take that this ship cannot be built under the 1936 act by remembering the difficulties that were encountered in connection with the construction of the only three passenger ships that were attempted to be constructed under the 1936 act since World War II.

And you gentlemen know the experience of those construction contracts probably almost as well as I do. But I cannot yet agree that

the steamship *United States* was actually built under the 1936 act. There was a contract executed under the 1936 act. As you know, the contract was questioned as to its legality by the General Accounting Office. It was referred to the Department of Justice. And suit was actually instituted.

And the suit was compromised on the basis of a $4 million additional price being exacted from the United States Lines.

I am not going to rehash that particular transaction—that is water over the dam—only to a certain extent, because it lends us the experience of that situation to let us decide today whether we want to go through that kind of a situation again.

The *Independence* and the *Constitution* were likewise subject to question. That case has been settled.

Now, let me say that the American Merchant Marine Institute is firmly behind the 1936 act. We believe it is sound in principle. We believe it is adequate to fulfill the purposes that are announced in its preamble. And we do not believe that any deviation should be made from the 1936 act unless there is presented clear and convincing evidence that the purposes announced in the preamble cannot be accomplished under the 1936 act.

I think that very simply is the issue that is laid before this committee.

They have got to decide whether or not the record that has been made here contains clear and convincing evidence that these two ships cannot be built under the 1936 act.

I also want to make it clear that there has been a lot of talk here about public and private financing. I do not think the committee should be misled that if it were determined by the committee that these ships should be publicly financed, that that is any deviation from the 1936 act.

As you well know, the 1936 act very wisely provided alternative methods of financing, both public and private financing. And I think that the framers of the 1936 act again had foresight. I think they provided those alternative methods so that as the years went on that method of fiancing could be chosen by the administrative body, which in the particular situation was in the best interest of the United States.

In this particular situation where the difficulties that have been outlined to you so far as securing private financing adds to the cost of the ship I think that the committee should seriously consider the fact that interest is one item of cost; should these ships earn in excess of 10 percent of their capital necessarily employed, thus putting the operation in a position where the Government would recapture half of that excess, interest cost over and above what the Government would be able to finance it for—namely, 3½ percent—would be an item of cost.

And to that extent the Government is going to pay half of that excess interest cost, just as surely as if they paid it out of an appropriation.

Now, that excess interest cost, of course, is going into private hands. I think it is a question for this committee to decide whether you are getting full value for that excess money, as General Franklin testified some 4 or 5 million dollars extra in the case of the sister ship to the *United States* over a period of 20 years.

If you decide that special legislation in this case is necessary, then you are confronted with the question of what special legislation should be enacted. I have over the past 6 or 8 months examined quite exhaustively into the figures that the United States Lines have prepared in connection with their returns and their earnings on this first *United States*. I think you want to bear in mind that their figures are based on actual operating experience for the identical ship that they now propose to build.

Those figures are based on a 5-year period which is unparalleled in this country's history of passenger travel.

It is also unparalleled in the past 20 years at least in the history of maritime labor relations in the sense that that ship has not been held up one day.

Bearing those two factors in mind, and bearing in mind the fact that you now have a ship which is only 5 years old, which has the blue ribbon on the Atlantic, which is in its infancy so far as ships are concerned, and is ahead of its competitors, I think that in all fairness you should forecast your thinking to the last 5 years of the life of that ship.

Take the time when it is between 15 and 20 years old; then you have got a ship, say, in the 1970's, when the ship is 18 years old; I question whether they won't have two brand new *Queens* to compete with.

They will have a new French ship to compete with. Is it fair to take the return from the *United States* for the first 5 years under those circumstances and compare it with anything?

I do not care if they use capital necessarily employed or book value or what you compare it with; it does not seem to me to make sense to take those returns when the ship is 96 percent filled and in an unparalleled period of prosperity and say this is such and such percentage of the money in the ship.

I am not an expert in "capital necessarily employed." I know what the purpose is. The purpose is to estimate the amount of recapture to the Government under the operating subsidy provisions of the act. I do know that capital necessarily employed does not cover all the money you have got in your venture.

If I were putting $47 million into a ship, take the 19 years when I had almost the whole $47 million in, and I was trying to figure out how much I was making on my investment at that time, I do not know whether I want to go to Maritime and say, What is my capital necessarily employed in this ship?

I know how much money I have got in the ship. I have got almost $47 million in it. I would be able to tell then in terms of my return whether I was making a fair profit on that investment or not.

As I say again, it is hardly fair to take this situation today and treat it over the whole life, the 20-year life, of this ship. To me there has been a serious undercurrent of opposition presented to this bill. I say undercurrent of opposition because I have read the statements of the Undersecretary of Commerce and the report of the Secretary of Commerce on this bill.

And I think it is about time that we recognized the difficulty that is going to confront this committee and the industry in getting this ship built. The Bureau of the Budget apparently has not included money for this ship in this year's appropriation, not, as has been generally supposed, because there was a bill pending before the Con-

gress to authorize the construction of the ship. And that, I submit, would be a very proper reason for not including an amount in the budget.

But, as they say—and it is the Under Secretary's statement—because of "overriding budget considerations," indicating to me that they have eliminated the money for the ship deliberately and purposely. And I think there is going to be a tremendous job to be done even if this bill is passed in getting the Bureau of the Budget to come along and recommend sufficient funds to carry out whatever law this committee recommends to the Congress and is finally enacted.

I am also concerned, I might say, by the statement that was included in the President's message that the time has come to cut down operating and construction subsidies and study ways and means of cutting down operating construction subsidies, followed up by a suggestion that there is no reason why a ship's life should not be considered as being more than 20 years—25 or more years, I think the language was.

Now, why those statements were included in the message—anyone is entitled to an opinion on that. But to me it indicates a building up of opposition already in the executive branch of the Government against any bill to authorize the replacement of the *America* at this time.

Another statement in the Bureau of the Budgets report on this bill—and it is strange to me because I have seen many departmental reports—they do not generally say the Bureau of the Budget says this; they generally say the Department says this, even though it might have been stimulated by the Bureau of the Budget.

But here they pin the rose right on the Bureau of the Budget. They say the Bureau of the Budget believes in the replacement of the *America* at an appropriate time. Very significant words—"at an appropriate time."

Then they say "under the wholly adequate provisions of the 1936 act." All these to me are terms of opposition to the bill. They finally wind up, of course, by saying the Bureau of the Budget has no opposition to this bill. However, if it is enacted, it is not to be considered as having any priority over other scheduled ship construction—another tone of opposition to the bill.

In other words, you people in the Congress go ahead and do what you want, but when you come around to building this ship you will still have to go back to us. I think it is about time that somebody recognized that there is that problem in this picture, quite aside from what bill is recommended and enacted.

There has been some suggestion that if this bill had not been introduced that the negotiations between the United States Lines and Maritime might have produced a ship that could have been built under the 1936 act. I think I know enough about what went on over the past year and a half since this committee held hearings in July of 1956 to know that that could not have been possible, and that it would have resulted in undue delay and further delay than has already taken place.

And that, as a matter of fact, I am concerned now that if this bill is not enacted I do not believe that you will ever get another ship, a sister ship to the *United States*, built, certainly not one that will be

approved by the General Accounting Office as being covered by legal proper contract within the four corners of the 1936 act.

I think that is all I have to say, gentlemen.

The CHAIRMAN. Any questions?

Mr. Robeson.

Mr. ROBESON. I will just say you have made a considerable contribution to the thinking on this subject. And I am glad to have your testimony.

I don't think I have any questions to ask.

Mr. CHAIRMAN. Mr. Tollefson?

Mr. TOLLEFSON. One of the things you said was, in effect, that in projecting the earnings of the company, the most optimistic figures have been used.

Mr. CASEY. Yes, sir.

Mr. TOLLEFSON. Apparently little or no thought was given to the possibility of cost increasing, travel traffic dropping off, as far as the new ship is concerned?

Mr. CASEY. I won't say no thought was given to it, because every time that these people get to the computations they always qualify it by saying that, of course, we recognize that it has been a good period for the ship. But they they go right on to the arithmetic which to me is misleading.

In other words, if you so qualify it, then the arithmetic is not the significant thing.

Mr. TOLLEFSON. But the figures were presented to this committee, and they were based on the most optimistic estimates?

Mr. CASEY. Well, just to give you an example of that, it is my understanding that when the original *United States* was planned they based it on an estimated carrying capacity—that is, a passenger list—of 70 to 75 percent filled. Here it is operating over 90 percent filled, and still returns a small percentage on the investment for the first 5 years.

Mr. TOLLEFSON. I would like to ask another question.

The CHAIRMAN. Excuse me.

Did you say the projected figures at the time it was originally built were on a 75-percent basis?

Mr. CASEY. My understanding is—and this can be verified, of course, if you think it is significant, from the United States Lines people—that when they planned this ship back in 1948, and how much it was going to cost the United States Lines and how much they could afford to put into it, they were only figuring that over the life of the ship they could expect it to be 70 to 75 percent filled. In fact, for the first 5 years it has been over 90 percent filled.

The CHAIRMAN. The life of the ship?

Mr. CASEY. Yes, sir.

The CHAIRMAN. All right.

Mr. TOLLEFSON. Another question: I do not know quite how to put it. But we have had considerable discussion this week and in past times too about defense features and the cost of the defense features. I have had a feeling—and I can't put my finger on it—that there is some additional defense value to the United States Government in a ship like this which is not included exactly in the defense features.

Do you have any thought in that connection?

Mr. CASEY. That is very difficult.

I have had the same feeling about that. In other words, your feeling, to try to express it the way I was thinking of it, is that merely taking an equivalent commercial speed and taking the cost of building the speed to in excess of whatever it is and translating that in terms of dollars does not really give you the national-defense features.

Mr. TOLLEFSON. That has been my impression, but I have not been able to put my finger on it.

Mr. CASEY. I can't further explain that.

Mr. MAILLIARD. What you are saying is that the commercial equivalent ship without any defense features in it is a very valuable defense asset?

Mr. CASEY. No question about that.

Mr. TOLLEFSON. I appreciate the fact that the 1936 act provided for these construction differential subsidies to take care of the difference in the cost of building the ship here and building it abroad. And we do have the preamble.

But I had a conviction that all the time we are thinking about a commercial ship costing one price and a commercial ship with defense features costing something else. And there is an intangible value somewhere along the line to the United States that is not to be measured in the cost of the defense features which are added.

Mr. CASEY. Well, of course, if you wanted to measure the value of being able to outrun a submarine by having 2 extra knots in the ship, certainly the people on that ship—you could not measure the value in their terms. I do not think you can measure it in terms of the *United States* either.

Mr. TOLLEFSON. Mr. Franklin testified that the defense features in the present *United States* cost the Federal Government more than the defense features would in the new ship. Would you care to comment on that?

Mr. CASEY. Well, of course, the original ship cost about 78 to 80 million dollars, and this costs $128 million. To that extent the defense features would go up anyway. In other words, no matter how you figure defense features, it is going to be more than defense features computed the last time.

Mr. TOLLEFSON. I wonder if you understood my question. The percentage cost of defense features in the existing *United States* is greater percentagewise than the cost of the defense features envisioned for this ship.

Mr. CASEY. That is right. And now you have gotten down right to the nub of the whole problem as I see it. And that is this question of whether the commercial equivalent is the 28½-knot ship versus the 30.7-knot ship.

Back in the year 1949 the national-defense features were based on a commercial equivalent of 28½ knots. And the defense features were arrived at of approximately $25 million. And then there was a very unusual assessment of a million and a half dollars against the United States Lines for defense features. There is no authority in the act for that whatsoever.

Of course, you want to remember that there was a settlement of $4 million extra on this thing that throws the whole picture into one of confusion, because the settlement was, as all lawsuits, a mixture of

apples and oranges and give and take and so forth, and you could not add the $4 million in any one category. You cannot take it into consideration.

However, the General Accounting Office and the Department of Justice took the position at the time that what was wanted was not a 28½-knot ship for the commercial purposes of the United States Lines; they wanted a blue-ribbon ship. And they got a blue-ribbon ship. A 28½-knot ship would not be a blue-ribbon ship.

And, granted, of course, that even a 30.7-knot ship would not be a blue-ribbon ship, either, because the only way they got the blue ribbon was by reason of using it one time at least at the defense speed. We contended that 28½ knots was not the proper speed to be attributed to that ship as a commercial ship.

The General Accounting Office had no way of knowing what it was. At the present time they have the log of the ship to go by. It is 30.7 average speed, back and forth, for the last 5½ years.

The real big stumbling block today is that they have got that log of the ship to justify. Now you have heard General Franklin make what I feel to be a very plausible statement in saying that all he really needs is the 28½ knots to make the 2-week turnaround. That is all the *Queens* have. But I seriously doubt myself—I know the General Accounting Office has testified on this—that either the Maritime Administration, the Secretary of Commerce, or the General Accounting Office will buy administratively 28½ knots as the commercial equivalent.

Of course, it is a different proposition altogether if this committee and Congress should enact a bill specifying 28½ knots to be the commercial equivalent.

Mr. TOLLEFSON. Now, then, as I get your point of view, you say that if we pass a special bill it does not really violate the general intent and purposes of the 1936 act because you mentioned one section there that so indicated it; is that correct?

Mr. CASEY. In other words, that section 212 could well contemplate the enactment of special legislation if necessary to carry out the purpose of the act.

I just want to say that as evidence that this is—that this ship, in my book, is in the pink-Cadillac class; this is one of a million; some of our lines have already gone ahead and made firm contracts.

Grace Lines and Moore-McCormack Lines, for example, have contracted for luxury lines under the 1936 act. The contracts have been approved as legal, binding, and 100 percent all right by the General Accounting Office and everyone else. So it does not mean that every time you have a passenger ship you have got to deviate from the 1936 act. It only means that after full investigation, full study, and clear and convincing evidence under the 1936 act that you deviate from it.

Mr. TOLLEFSON. I was trying to get a definition of a special case.

Mr. CASEY. That would be difficult.

Mr. TOLLEFSON. Well, let me try one on for size: Any ship to be used commercially, urgently required by the Department of Defense as a naval auxiliary, which cannot be a successful financial operation as a commercial ship if built under the 1936 act constitutes a special case.

Mr. CASEY. Not bad.

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Mr. TOLLEFSON. I would like for you to work it over.

That is all, Mr. Chairman.

Mr. MILLER. Mr. Casey, I think you have pretty well established the fact that we can legally take exceptions to the 1936 act; and certainly without destroying the act in the case of, to use your expression, these pink Cadillacs.

While I am on it, and while we are discussing a bill that affects the United States Lines, we also have one here before us that affects another line that I feel fits in the same category. Do you subscribe to that?

Mr. CASEY. I am not thoroughly familiar with the American President Lines' situation. I do know what has been testified to today. I have read the original statement of Mr. Killion. I feel this about it.

The question of speed and the type of ship and the type of service are all to be taken into consideration in determining whether special legislation is necessary.

The CHAIRMAN. Let me interrupt you just a minute.

Mr. Gibbs, I want to express the appreciation of the committee for your continued presence during these hearings and to pay our high regard and respect to you for the proficiency and the position you gained in life. I hope you will come back to see us and bring us again your wise judgment when we find ourselves in a situation like that.

Mr. GIBBS. Thank you very much, Mr. Chairman. It has been a great privilege and pleasure to be here.

The CHAIRMAN. Good luck to you.

Thank you.

Mr. CASEY. I was saying there are a lot of things to be taken into consideration in determining whether a deviation has to be made under the 1936 act.

For example, I don't know how many liners are operating in the North Atlantic, what their speeds are. I know, of course, that speeds are obviously higher in the North Atlantic than they are in the Pacific. I heard the American President Lines say that basically they have no competition from foreign-flag ships at the present time but that the Japanese and the British are coming in with 27- and 26-knot ships.

Well, by contrast the *Queens* built back in the thirties are 28½-knot ships. The new French ship will be a 31-knot ship.

In other words, you have got a competitive factor in the Atlantic that you don't have in the Pacific. The American President Lines people testified they have already examined into the question of putting a fast passenger ship in the Pacific, and that as they examined the speed of the ship going up 24, 25, 26, 27—when they got to 28 knots, their chart, their graph, started to go out of sight with fuel costs.

Now, it seems to me that those are things that you have got to take into consideration.

Mr. MILLER. I don't think that we want to put the APL and the United States Lines on the same basis as far as speed is concerned, but there is a relative condition in the Atlantic and a relative condition in the Pacific.

You recognize we have to maintain the prestige in the Pacific as well as in the Atlantic. I am not trying to put these on the same speed. Somebody has said if you wanted to maintain 30 knots in the Pacific and across the Pacific you would have to get a big tanker and

put a few cabins on the top deck in order to get fuel enough to do it. I am not an engineer, but that appealed to me.

Mr. CASEY. So there will be no misunderstanding, while I appear here primarily in support of the bill to build the sister ship to the *United States*, the institute supports the proposition that a ship be built of the superliner type for the Pacific trade. I think both ships should be built.

Mr. MILLER. I am satisfied that both ships should be built too.

The thing I want to make very plain is that these ships that are extraordinary ships should receive extraordinary consideration as the framers of the act, as you have so ably pointed out, have established. And if this is the case, we want to get that done in both instances, because I don't think that it is to our interest to sit back and wait until the Japanese or the British come with fast ships in the Pacific and then we are there trying to catch up with them.

I think Mr. Mailliard very rightly spoke of too little and too late this morning. And I don't concede that you subscribe to the too little and too late theory as far as the Pacific is concerned.

Mr. CASEY. No, I do not.

Mr. MILLER. Now, if we are going to get into scrambles and mix the apples and oranges, wouldn't it be better to now sit down and make clean deals through the passage of this bill and the companion bill to take care of a ship in the Pacific?

Mr. CASEY. Yes, certainly. But let me just follow through just one step further on that.

A clean deal could have been put through on these ships without the necessity of this bill by submitting the contract to the General Accounting Office for an advance decision and having them rule on the contract favorably.

But I am firmly convinced that no contract could have been devised under the 1936 act, at least for the sister ship to the *United States*, which would have received a clearance of the General Accounting Office, and hence the necessity to come to Congress for this special bill.

Mr. MILLER. I think that is the thing that concerns me, that we don't want to get into that type of thing; or we want to avoid the very situation that you so ably described a few minutes ago in the case of the *United States* and the case of the *Constitution*, and the *Independence*. We have had some experience, and I am very glad—this is the first time that has been brought into the hearings. I am glad you brought it into the hearings.

As far as I am concerned it strengthens my position or my thinking on the thing that now is the time to write clean legislation.

Of course I realize that, as you do, that there is an undercurrent against this thing. That undercurrent manifests itself in other phases of legislation here.

We find it even in the Armed Services Committee. But it is all the more reason that we have to write it up. Of course I think there is a great deal of confusion that comes into this that compounds the confusion when we talk about equivalent ships and equivalent speeds and all of that.

Sure you have got to do it if you are going to try and rationalize it under the 1936 Act. Why don't we frankly say, as we can in writing

this thing, the equivalent speed in the Atlantic today is 31.7 knots or 31 knots.

It reminds me here a good deal of the way that we pay our employees in our office. Based on a 1929 pay scale to which you add 10 percent, and then 14 percent, and then 10 percent, then 20 percent, then $300, and then 10 percent, to get to something that is quite unrealistic. So you tell some girl I am going to put you to work at $1,800 a year when you really mean she is going to get $3,800 a year.

And you are familiar with the way that gobbledygook takes place.

Mr. CASEY. Yes.

Mr. MILLER. Let's get away from that. And let's keep that out of the operation of this act. And let's see if we can't get on with it.

I want to compliment you for coming here and, as you generally do, bringing us a lot of good and new ideas and some real leadership.

Mr. CASEY. Thank you, sir.

Mr. MILLER. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Allen?

Mr. ALLEN. Mr. Casey, I am a little bit in the position of Mr. Miller, I think, in being somewhat uncertain.

As I look at the matter I have been as much uncertain about procedure as anything else. It seems to me we have a case presented which indicates a deviation from the routine provisions of the 1936 act. And under section 212 there is provision for study; there is reference to superliners; and there is reference to a duty on the part of the Board to make reports to and recommendations to Congress.

On the other hand I think we have had fixed price bills in here before. *LaGuardia* and I think some others.

In those cases I remember that the Maritime Board and the operator have agreed on a price—informally possibly—but when the bill came there was agreement and support from the Maritime Commission, or Board, or Administrator, or whoever it was.

Now, in this case if we are going to start a new sort of a transaction—and I think it is new—it would seem to me that the way of bringing legislation to the committee and of dealing with the situation should be to give consideration to what the precedent is going to be in future cases, if any.

Is there a good way of proceeding in the case of the necessity to deviate from the general routine procedure? If so, what is the way to proceed?

Mr. CASEY. There are practical difficulties to any procedure you might devise. In the case of the ships that you mentioned, they were ships that were owned by the Government and could not be sold under the Merchant Ship Sales Act of 1946 because the closing date was January 15, 1951. Therefore, they had to come to Congress to get authority to sell them.

In most of the cases the price was agreed upon pursuant to the formula set forth in the 1946 act with appropriate deductions for depreciation. And it was a fairly simple matter to get together between the lines and the Maritime Administration to agree on a price.

And it was an equally fairly simple matter to get that through the Bureau of the Budget and get it up here in the ordinary course.

That is, get a bill submitted from the executive branch of the Government to the Congress. Because it was, you might say, found money

to the Bureau of the Budget. It was money coming in from selling a Government asset.

I felt all the way through the original controversy over the *United States* that what should have been done at that time was when they found, as I think some of them certainly felt in their own heart and soul, that it was stretching the act to try to build a ship that would be economically feasible to operate for the United States Lines in light of the investment they were then prepared to put into the ship, when they found they couldn't do that within the four corners of the act, they should have come to Congress with an appropriate bill with a price that they felt could be agreed upon and submit that bill to the Congress for enactment.

The same thing is true today. But I query today what luck the Maritime would have trying to report a bill up to this Congress, even if they could come to an agreement with the United States Lines, through the Bureau of the Budget.

Mr. ALLEN. This was in a way confirmed when Mr. Morse testified that his views as Maritime Administrator were not necessarily the views of the Maritime Board, but going one step further: we had the problem of selling some Mariners.

As I remember it there, the legislation was brought to us after a considerable study.

What I am getting at—I think it is quite obvious—is that it doesn't seem to me this committee is in a position to sit here and take conflicting testmony on what prices and other considerations should be and come to a conclusion on each case that presents itself as to what a price should be.

You have got one now. And frankly it is a little confusing on the figures.

But as a method of setting a precedent, should we consider a variety of bills which come from whatever source are presented and do the best we can with the problem; or should we have a reasonably well defined procedure that the people in the industry would follow or someone in the Government would follow before it gets to the committee?

Mr. CASEY. Well, as I say, I can't get over the immediate problem first. And that is the fact that in this particular case I feel that the only feasible way to have this problem presented to this committee at this time was to have bills originate in the Congress itself. And I recognize very distinctly the difficult problem that is confronting this committee to, you might say, dissect and assimilate the various conflicting statements that have been presented as to returns and all the other parts of it.

But I think that that is very properly the function of a committee, to get the information from wherever they can get it and try to assimilate it, at least under this kind of a situation.

Mr. ALLEN. Are you saying in effect that under that different circumstance there might be a better way which in this case didn't work?

So it is up here because there is no other way of doing it?

Mr. CASEY. Yes, sir. I think, for example, that if the intent of section 212 were followed through, that Maritime Administration and the steamship lines, once they found that they had a proposition which

for want of a better formula or definition, I will say, came under Mr. Tollefson's definition of the type of ship that was to be built, that couldn't feasibly be built under the 1936 act, then Maritime Administration should forward that bill on then to the Secretary of Commerce, then on to the Bureau of the Budget, then on to this committee.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Dellay?

Mr. DELLAY. I would like to repeat a statement I made this morning that where the construction of a new development enters into a field of being potentially a troopship and considered a naval auxiliary, serious consideration should be given by this committee to enacting special legislation if necessary in each specific instance.

But I am particularly disturbed that even if we do that—and I read the report from the Navy that the proposed vessel will be another potential troopship—it will serve as a most valuable naval auxiliary and it will have many features that are expected to enhance the military value of this ship besides reducing the work, cost, and time for conversion of this ship into a military or naval auxiliary in event of a national emergency, one would feel that the interest of the Navy would be principally in getting this ship built.

We find in a section of this statement that it is recommended by the Navy that the cost of subsidy to the operator and the amount of differential subsidy be determined in accordance with existing statutory procedures.

We are coming back to the position that I think we are squirming before we get into the big battle itself.

As Mr. Casey has said, there is more than meets the eye in this fight.

Mr. CASEY. Let me point out that under the 1936 act there is one provision that requires that all these ships, all passenger ships that are built under the 1936 act, be so designed as to serve as immediate military or naval auxiliaries in time of war.

In other words, that is a requirement before you ever get under—before you get out from under the 1936 act.

Now, I think that serious consideration must be given to adhering to the 1936 act wherever a ship can be built feasibly, economically, and practically under the 1936 act. And only, as I say, when clear and convincing evidence is presented that that is not the case should you consider breaking the formula of the 1936 act.

Mr. DELLAY. I think our chairman, yesterday morning, went through this thing and had reached the point where we were pretty much in agreement, that under the 1936 act, it is going to be rather difficult to create the conditions under which these ships can be built.

As far as I can see, we are back at this point again once more.

Mr. CASEY. No. I am convinced you can't build this ship under the 1936 act.

Mr. DELLAY. We reached that stage the other morning.

The CHAIRMAN. I think the testimony of Government is to that effect.

Mr. CASEY. Even the Navy witness whose testimony you quoted, when the statement was read back to him, almost immediately retracted from the statement and said it was gratuitous and he should not have put it in there.

I wonder why it was put in there.

Mr. DELLAY. I do, too.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Mailliard?

Mr. MAILLIARD. Mr. Casey, you indicated that what should have happened did not happen. So should we now try to make it happen?

Do you think it would be practical for this committee to say, "Mr. United States Lines and Mr. Maritime Administrator, get together and come up with recommendations as to what is a proper price for the United States Lines to pay for this ship"?

Mr. CASEY. Mr. Mailliard, you have seen the statements of Mr. Rothschild and Mr. Morse. You must have appreciated that they separated their testimony so that Mr. Rothschild covered the policy aspect and Mr. Morse covered the need and other practical aspects of this ship.

In Mr. Rothschild's statement it was pretty clear to me that the Department of Commerce has a firm policy, or has established a firm policy, at least at this stage, that this ship should be built under the 1936 act.

Mr. MAILLIARD. I may say I got the impression that during the course of their testimony here they changed their position quite considerably.

Mr. CASEY. Unfortunately, all I saw was the statement.

Mr. MAILLIARD. They said they were going to go back and think it over and maybe come back with some new ideas. I think you may be unduly pessimistic.

Mr. CASEY. I hope so.

Mr. MAILLIARD. I think they were sufficiently impressed with what has been going on in this committee room that they felt that they had not come up with an adequate suggestion.

I think maybe the procedure which you suggested is proper is still possible. I hope it is. Because it is certainly awfully difficult for a committee of Congress to decide whether $49 million is right or $49,200,000, or—that is a technical question that is awfully hard to make a decision on in this manner.

Mr. CASEY. As I understood the testimony, Mr. Morse came pretty close to General Franklin here before the committee in what would be a feasible way of approaching a new contract for this ship; and that is to agree on 28½ knots as a commercial equivalent which with the proper allocation of subsidy and national defense features would bring it down to the $47 million price, leaving only the public versus private financing to be worked out.

Now, if they are that close together, and if there is no unseen forces at work, then conceivably they could get together and decide on that.

And how you enact the bill, whether you enact it as a $47 million price, or whether you change the act by saying 28½ knots—and I say change the act—you have an expression of legislative intent that in this case 28½ knots should be considered the commercial equivalent.

You would get the ship built in either event. So what difference does it make how you do it?

Mr. MAILLIARD. I think it would make a considerable amount of difference. This won't be the only one. With your experience I think your advice would be valuable to us as to whether it seems to you a cleaner way to do it and a better precedent to establish to get a fixed

price determination and get some legislation on price when it becomes obvious that the ship cannot be built under the 1936 act, or whether it is better to take this other approach.

Now in this instance we have better information, it seems to me, in the North Atlantic that you can sort of justify your position. You have got a lot of experience and a lot of competitive ships. But we can get into other situations, it seems to me, where we would just be picking a figure out of the air.

Mr. CASEY. Let me say this: I prefer the fixed price approach. I recognize that the other approach is the simpler and for laymen at least, the easier to understand.

In other words, you can understand that one. It is—it presents a complicated accounting problem with a lot of intangibles that I have pointed out when you try to decide how much money can you afford to put into a ship and get a reasonable return on your investment. You are never going to be able to figure that out to a mathematical exactness because you have the imponderables, as I say.

You don't know that a 5 or 10 percent drop in passenger traffic will throw your calculations out.

Even before you get the ship built you may be way off base.

Taking this 28½ knots is only going to get you over the hump in this one case. It is peculiar to this particular case.

Obviously you couldn't do the same thing in the Pacific in my book, because you don't have any ships in the Pacific at the present time. If you wanted to do it in the Pacific you would have to take the 26 or 27 knot figure because that is the type of ship that is going in there.

Mr. MAILLIARD. That is exactly our problem.

It seems to me that looking to our own future contentment in our jobs here, the precedent we set here may become a pattern that there will be a lot of pressure to follow.

That is why I was asking for your comments as to which you think is the better type of legislation.

Mr. CASEY. I think with the aid of accountants you can determine whether or not $47 million is a fair and equitable price to pay for this sister ship, both to the Government and to the company in this particular case. And even taking into account the imponderables which I mentioned which I certainly think should be taken into account no matter what the accountants come up with.

Mr. MAILLIARD. That is our problem, though. I think if we go to the House with this proposal we are going to have to have the support—you say the accountants—well, whose accountants?

We don't have any.

Mr. CASEY. I thought the committee had asked the General Accounting Office to give, within the next 2 weeks, figures of this projected return.

That is what I mean. Of course they are the agent of the Congress. They are available to you for this kind of purpose.

Mr. MAILLIARD. That is what I am trying to get on the record—where you think we should go for the substantiating information to support a fixed price if we have to go to the rest of the Congress with this.

Mr. CASEY. I think the General Accounting Office is the logical place to go. I think they are the ones that should service committees of Congress in this way.

Mr. MAILLIARD. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Pelly?

Mr. PELLY. Mr. Casey, I understand in the very early part of your testimony you gave the opinion that it would be impossible for both of these ships to be built under the Merchant Marine Act of 1936. Is that correct?

Mr. CASEY. I am not thoroughly convinced on the APL ship, but I don't say that in any way except that I am not as familiar with the background. I haven't seen the figures.

Mr. PELLY. You said "ships", plural, in your sentence, which would have indicated that.

It seems to me when we didn't have any bid it would be impossible for anybody to make that statement.

Mr. CASEY. I certainly cannot venture an opinion on the APL ship. I have seen the figures on the United States Lines' ship. I know the background of the first ship.

I know something about what I am talking about in regard to that ship. I don't want to venture an opinion on the other one.

Mr. PELLY. I am going to ask you a couple of questions. They don't necessarily reflect my viewpoints, but I think the answers should be on the record. They have to do with your statement as to the undercurrents of opposition which were in evidence.

Wasn't it your impression from reading the Secretary's testimony that his opposition, or the opposition of the Department, was based on the fact that if an exception was made in the case of the sister ship for the *United States*, that would open the door for other exceptions?

Mr. CASEY. I think that was one of the factors definitely.

Mr. PELLY. Didn't we have evidence of that that morning when Mr. Killion came back and actually said that he would be very unhappy on the basis of his original statement?

Now, he wants to make the same return as the United States Lines.

In other words, I thought he really saw an opening there. I don't disagree with his—or to change that, I think he saw that he probably wasn't making a reasonable return and that the position of the United States Lines was more in line with what you should earn.

But I think that that proved the very point of the Secretary, that we should go very cautiously in opening the door for special exceptions.

Mr. CASEY. Well, I certainly—that is why I used the term "clear and convincing evidence" that deviation is warranted and required in order to get the ship built. And that is again something that you are going to—I have no question in my mind but that there are going to be other people to come before this committee and try to carve out a case for an exception to the 1936 act. I know there is a bill introduced this morning along the same lines. Somewhere you have got to be on sound ground.

I don't expect that this committee will report out every bill that is introduced, making an exception to the 1936 act. Therefore you have got to be certain and definite in your own minds and convinced

that the ship can't be built feasibly and economically under the 1936 act.

Mr. PELLY. At another point in your statement you expressed yourself as being unhappy over the President's message, which indicated that we should think in terms of less subsidies and possibly in the way of extending the life of a ship; as far as depreciation goes.

Wouldn't you think that the statement that *America* could bring $10 million is evidence of the fact that a ship's useful life might exceed the 20 years—actually go up to 25 years?

Mr. CASEY. Let me say merely to have the record straight that I am not so unhappy with the thought that a study would be made to try to reduce operating and construction subsidies.

Nor am I unhappy with the thought that a study is being made to determine the feasibility of extending the useful life of a ship or statutory life of a ship from 20 to 25 years.

I am unhappy with the fact that when the President comes out and recommends $160 million and $130 million and in the next breath there is put into the statement something that could be used to say, while I am recommending this, here are a couple of factors that Congress might take into consideration in deciding whether they should appropriate the amount I am recommending.

Now, so far as the life of the *America* is concerned, I have been aboard the *America* recently. I think it is an excellent ship.

I think it is in good shape. I could well see it would be worth $10 million in the market today to a foreign-flag country.

The question that is presented to this committee is: do you want to postpone the replacement of the *America* for 5 more years, so to speak, at which time of course the cost of the ship is going to go up.

At that time you are going to have a steamship *United States* that is going to be past the middle of her life. And this layman sort of concept where you have got the *America* taking 7 days and the *United States* 4½, where I have seen them both tied up in the pier in New York together, which obviously makes for an uneconomical operation, then you are going to have the same problem again 10 years from today.

Mr. PELLY. Well, the *America* would be operated after her normal 20-year life without expense of any depreciation whatsoever.

Mr. CASEY. It would be paid up. It would be like paying off the mortgage on a house. I think speaking from a personal standpoint, it may be that they certainly could make a little more money with the *America* rather than lose money after that period is up.

But basically it is not an economic ship to operate and the wage expense on the *America* is about equivalent to what it is in the *United States*.

They have something like 1,050 crew on the *United States* with a 2-week turnaround, and 660 crew on the *America* with a 3-week turnaround.

Mr. PELLY. I would hate to contemplate an administration that would not think in terms of reduced subsidies for air or for surface ships or for any other operations that we have. And I think that it is only proper for the President to suggest that that be a consideration as far as the Congress goes.

Mr. CASEY. If that work were going on and some constructive efforts were being made along those lines in the executive branch of the Gov-

ernment—and I am not convinced they are—then I would have no serious quarrel with the statements appearing in the budget message. But where they appeared, it seems to me that they denoted an effort to somewhat qualify the recommended amounts in the budget message.

Mr. PELLY. I think on the other hand that the expenditure that would be made by the Federal Government in the case of a sister ship for the *United States* for defense purposes is a mighty good buy. Because obviously it is a lot less than if we went under the normal military expenditure or defense expenditure and spent a lot more money and had the expense of maintenance instead of getting actual revenue.

Mr. CASEY. No matter how you analyze this whole picture, if you go back to the defense angle, this money is well worth it to the United States Government.

Mr. PELLY. I always have a fear of a group of men such as exists in the legislative body passing on any dollar amount that should be paid or authorized to be paid for a ship. It always worries me, because we know so little about values.

Who do we go back to in this case? In this case don't we go to the Maritime Board and they set the value?

Mr. CASEY. Actually in terms of defense, you have got Admiral Wilson and Admiral Mumma to rely on much more than Maritime.

Mr. PELLY. I think that is a good point.

Mr. CASEY. They are the ones who have said they need not only one of these ships but they need a dozen of them.

Mr. PELLY. If we start without proper evidence to support a figure pretty soon we will have other lines coming in and wanting to get under the formula of the fixed price.

And I would think we should hesitate as far as the precedent goes. I know that you had the background and experience in these matters and you know of the concern. When we were authorizing those other sales, as you recall, there was some question as to appraisal.

So that is why I am interested in getting your answers into the record. We are going to have to explain to other Members of Congress these very points.

Mr. CASEY. And I would agree that you should hesitate before you deviate from the 1936 act.

In this particular instance I am personally convinced that unless you deviate from the 1936 act and deviate now you are not going to get the ship built.

I think you have to become as convinced as I am that that is the proper course.

Mr. ALLEN. Will you yield?

Mr. PELLY. Yes.

Mr. ALLEN. Mr. Casey, as a very practical matter at the present time is the General Accounting Office an arm of the Congress dealing at arm's length with the executive branch, or is it in a sense serving both branches or just what is the situation with regard to the relationship between the committee and the General Accounting Office.

Mr. CASEY. The General Accounting Office is an arm of the Congress. It is in the legislative branch of the Government. It is completely independent of the executive branch of the Government. It does, as you say, deal at arm's length with the executive branch of the Government.

So far as service to committees are concerned in the Budget and Accounting Act of 1921 there are certain committees that the General Accounting Office and the Comptroller General's Office are directed to service.

I think it is the Expenditures Committee and the Appropriations Committee. But in all the experience that I have had down there it has been available to service any committee that has called upon it for service.

And there is evidence in the past, in the past 10 years, that while they used to have 1 or 2 men assigned to Congress, now they have some 250 men assigned to committees of Congress, to all different types of committees.

Mr. ALLEN. Does any similar situation exist between the committee and the Maritime Board or any other of the agencies with whom we deal?

Mr. CASEY. No, sir.

Mr. PELLY. I thought Mr. Morse said the other day that he had to wear two hats. That as a member of the Maritime Board he was an arm of the Congress.

The CHAIRMAN. No. He is Administrator and Chairman of the Board.

Mr. MILLER. That is right.

Mr. CASEY. He wears two hats all right.

Mr. PELLY. I think you will find what I said, he said.

Mr. MAILLIARD. Mr. Pelly is quoting the gentleman correctly, whether he is right or not.

Mr. MILLER. If he said that, it should be called to his attention and corrected, because he is a member of the executive branch of Government.

Mr. CASEY. That is my understanding.

Either he should be corrected or I should be corrected.

Mr. PELLY. He says he is a member of both.

Mr. MILLER. No.

Mr. ALLEN. Will you yield?

Mr. PELLY. Yes.

Mr. ALLEN. I have a recollection that a variety of commissions, such as the old Maritime Commission, and the present Maritime Board, and the Interstate Commerce Commission, and some others, are independent agencies, and as much or more arms of the Congress as they are arms of the executive.

I think we ought to know that before we start throwing things around.

The CHAIRMAN. They are independent agencies in the executive department.

Mr. CASEY. That is right.

The CHAIRMAN. I think in your statement when you spoke of a profitable operation of the *America* after she reached 20 years, you meant under foreign flag?

Mr. CASEY. No, sir.

The CHAIRMAN. This $10 million price?

Mr. CASEY. Maybe I don't know enough about the steamship operations, but I think if the *America* was operating under American flag and you didn't owe any money on it, that you would not be losing the money you are losing now on it.

The CHAIRMAN. Well, she is paid up now.

Mr. CASEY. Well, then, I think the paying up process just took place within the very recent past.

Mr. PELLY. I think she is still being charged depreciation, though, of about $500,000.

The CHAIRMAN. They haven't fully depreciated it.

Mr. PELLY. That relates to a loss in their operation.

The CHAIRMAN. Anything further?

Mr. TOLLEFSON. I think the record ought to show that General Franklin has been shaking his head.

General FRANKLIN. This one thing, if you will let me say it:

If a new ship, sister ship to the steamship *United States*, is ordered, during the period—you correct me if I am wrong on this—during the period that the *America* is operating, under operating differential subsidy, as I understand it, we have to pay charter hire to the Federal Maritime Bureau, which will amount under their formula to some $900,000 a year, which is more than the depreciation.

The CHAIRMAN. Mr. Glenn?

Mr. GLENN. No questions.

The CHAIRMAN. Thank you very much, Mr. Casey, for coming.

The CHAIRMAN. This will conclude the hearing on this subject until further notice.

(Whereupon, at 4:15 p. m., the hearings were concluded.)

(The following was furnished for insertion:)

STATEMENT OF HENRY C. PARKE, CHAIRMAN OF THE NATIONAL MERCHANT MARINE COMMITTEE OF THE AMERICAN LEGION

Mr. Chairman, gentlemen of the committee, my name is Henry C. Parke. Presently I am serving the American Legion as chairman of its national merchant marine committee, an appointment it has been my privilege to hold since 1950. Many times in the past the American Legion has been granted the opportunity to appear before this committee and present its position in support of a strong, privately owned and operated merchant marine.

Ofttimes it is not clear to the younger members of the American Legion just why our organization supports the merchant marine. This tie may not be altogether clear to members of this committee, therefore, with your indulgence I should like to very briefly recite a few of the background facts.

Our organization was founded in Paris, France, by servicemen of the American Expeditionary Forces. These were hardy young Americans, poorly trained to be sure, but stout of heart. Having won a war from the tough, well-trained German Army they decided to band together so that America would never again be ill prepared for war and by being well prepared reduce the probability of war. These impressionable youths would never forget the filthy foreign ships that transported them to France. Shipped more like anicals than servicemen they determined to do what they could to assure America's maritime future.

Down through the years The American Legion has grown from a handful of servicemen to nearly 3 million strong, yet we have never wavered in our advocacy of a powerful merchant navy—a veritable "fourth arm of national security."

Again last year at Atlantic City, the National Merchant Marine Committee met to be briefed by experts from the ranks of industry, Government, and the Congress. As a committee we sought facts from Alexander Purdon, executive director, Committee of American Steamship Lines; Mr. Ben Guill, Vice Chairman, Federal Maritime Board, Mr. L. R. Sanford, president, Shipbuilders Council of America, Mr. Ralph E. Casey, president of the American Merchant Marine Institute, Adm. John M. Will, Commander of the Military Sea Transport Service, and from the very capable chief counsel of this committee, John M. Drewry. We are indeed grateful to these gentlemen for the facts they presented which in turn enabled the committee to prepare the following report, which was unanimously adopted by the 1957 national convention of the American Legion:

RESOLUTION No. 495

"Whereas Russia now has become the second largest sea power in the world, it is essential that we have a modern American merchant marine, planned for peace and serving with the Navy to maintain control of the seas for the welfare and security of the United States and all free nations: Therefore, be it

"*Resolved*, That the American Legion reaffirms its 38-year support of a strong, privately owned and operated American merchant marine as our fourth arm of defense, and urges the adoption of such policies and procedures as will—

"1. Implement as fully as possible the sound national maritime policy established in the Merchant Marine Act of 1936.

"2. Assure the appropriation of adequate funds to enable the Government to meet its obligations and proceed in an orderly fashion with the vessel replacement program.

"3. Require the Office of Defense Mobilization to review the shortage of steel for the construction of new merchant ships and establish a priority rating, in the interest of national security.

"4. Effectively administer the 50–50 law assuring American-flag vessels their fair share of Government-financed cargoes.

"5. Encourage exporters and importers and tourists to use American-flag ships in the interest of dependable and reliable service, a dynamic and expanding United States foreign commerce, and national defense.

"6. Provide that low-speed, inefficient, and overage vessels now in laid-up status be scrapped; and the reserve fleet be upgraded by ships traded in from the commercial fleet.

"7. Insure immediately available for national defense, strong intercoastal and coastwise steamship service, and expand and improve the Nation's fleet of ocean-going tankers and ore carriers.

"8. Reinstate authority to Coast Guard to screen port and vessel personnel and provide security by allowing only loyal American citizens to obtain clearance.

"9. Increase the efforts of the Government to work with other nations toward eliminating discriminatory practices harmful to United States flag shipping.

"10. Perpetuate the traditions and historic significance of the steamship *Savannah* by recommending to the Congress and the Maritime Administration that the new atomic ship now under construction be named the *Savannah*.

"11. Commend the Military Sea Transportation Service for outstanding achievement in the Operation DEW Line and commend the Military Sea Transportation Service for its close cooperation with private industry.

"12. Continue to encourage and support the United States Merchant Marine Academy and the maritime colleges in Maine, Massachusetts, California, and New York.

"13. Properly modernize and expand Panama Canal facilities or build an alternate Central America route before saturation point is reached.

"14. Provide adequate shipbuilding and ship-repair mobilization bases for wartime requirements along all seacoasts; and that Government and military officials allocate and distribute peacetime new-ship construction and repairs equitably among all Atlantic, gulf, Great Lakes, and Pacific facilities in the interest of national security.

"15. Continue a program of direct action for a strong American merchant marine.

"16. Implement the broad and extensive information and educational campaign by the American Legion on behalf of a strong American merchant marine for our national security.

"17. Provide that the chairman of the merchant marine committee and the director of the national security commission of the American Legion be, and they hereby are directed to continue to seek and obtain from all possible sources such information and assistance as will insure the effectiveness of the mandates of this convention concerning the American merchant marine and, further, that the chairman and director be, and they hereby are, authorized to participate in all public hearings affecting the said program: Be it further

"*Resolved*, That the American Legion at its national convention assembled in Atlantic City, N. J., this September 16–19, 1957, instructs the national headquarters of the American Legion to continue to prepare and to carry out an extensive information and education program about the American merchant marine as our fourth arm of national security.

"Approved."

We are in complete agreement with Maj. Gen. John M. Franklin, president of the United States Lines, who in testifying on H. R. 9342 pointed out in unequivocable terms what it means to have a modern fast merchant marine in time of emergency. He recalled that in World War II, more than 938,000 troops were transported by the British *Queens*. In truth, space available on United States ships was nonexistent. This transport service furnished by the British cost approximately $75 million and when fuel oil is added the final cost approaches $100 million.

How will the addition of 1, 2, or 3 sister ships to the steamship *United States* help in this defensive matter? With the ability to carry almost 14,000 troops each and capable of a minimum of 20 cross-Atlantic round trips per year, approximately 1.1 million troops could be carried per year.

Another salient point, many times overlooked, is the speed factor of these ships in our defensive effort, and it also accounts for the number of round trips possible per year. But also, these ships travel independent of convoys, thus needing no escort vessels they release Navy war vessels for combat duty. This economy, although very difficult to be properly costed, is indeed a real savings.

When all of the costs and savings factors are totaled, there can only be one conclusion: build these superliners for use by our own flag lines. Only then can we state that we have the firm foundation of a sound merchant marine. A merchant marine that can hold its own in competition with foreign shipping in time of peace and a true fourth arm of defense in time of war.

In respect to the issue of extending the replacement period for ships receiving operating subsidies from the present 20-year period to 25 or more years, we, the American Legion, feel that this committee is more than qualified to answer this question. However, there are certain points that must be considered.

In the near future, 80 to 85 percent of dry-cargo and combination passenger-cargo ships will be over 20 years old. In terms of sheer economy, it would seem only logical that this problem should be phased out in smooth orderly fashion. We cannot replace such a large percentage of our merchant marine at one time; and, even if possible, it would only create a repeatable situation.

This problem of replacement of ships carries very logically into the question of our reserve fleets, tied up in various rivers and estuaries. Of the approximate 2,000 ships in the reserve, some 1,500 of these are old, slow Libertys. By beginning a sound, long-range building program immediately, these Liberty-type ships can be scrapped and replaced by the faster ships that presently comprise the bulk of our merchant fleet. We need only to recall the terrible loss of lives and tonnage of the great convoys of World War II to realize that this problem of providing ships for a faster reserve fleet must be acted upon now. Convoys can only operate at the speed of the slowest ships.

There exists too many possibilities short of all-out nuclear war which demand that the United States maintain a strong, modern merchant marine. It is entirely possible that the next war could be fought with conventional weapons or a combination of nuclear and conventional weapons in which the merchant marine will be called upon to furnish the means of transport for the bulk of all supplies. If this situation should come to pass, we fervently pray that our merchant marine will be able to respond in the challenge initially rather than a hurried, expensive building program. Shall we force them to the position of inadequacy in terms of meeting these requirements? We, the American Legion, therefore, urge this committee to report favorably to Congress any and all bills and resolutions that would develop and keep our merchant marine in proper fitness. Only with futuristic type of thinking can we look at the United States merchant marine and truly says, "Your merchant marine in peace is your fourth arm in war."

COMMITTEE OF AMERICAN STEAMSHIP LINES,
OFFICE OF THE EXECUTIVE DIRECTOR,
Washington, D. C., February 13, 1958.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D. C.

DEAR CHAIRMAN BONNER: In considering H. R. 9342 and H. R. 9432, your committee focuses attention on one of the serious problems confronting the American merchant marine; namely, the problem of replacing—and perhaps expanding—our passenger-ship service.

We firmly believe that a well-balanced American merchant marine must have sufficient passenger capacity to meet our requirements for passenger service in the

light of the declaration of policy in section 101 of the Merchant Marine Act of 1936.

It seems self-evident that the transportation of passengers is a part of our commerce serving a distinctive purpose—and having unique problems. The size of the units and the capital investment required makes this review by your committee imperative. We should bear in mind that foreign nations recognize the vital role which passenger ships play in the maintenance of well-balanced merchant fleets and make provision for modern passenger liners. Most recently, the French National Assembly voted a substantial sum for the construction of a new French superliner.

We know that your committee will take into account the specific defense role of passenger vessels, and the fact that according to a recent study by the Office of the Chief of Naval Operations—"Sea lift is without question the mainstay of overseas transport; there is no alternative for the lifts of large organized forces and for massive movement." The same report points out that we can send 75 divisions by sea at approximately the same expenditure of resources and effort as it would take to send 3 divisions by air.

International prestige is an important factor in the consideration of passenger ships. While it may be difficult to appraise the value of such prestige, we have had convincing demonstrations recently that other nations are aware of its importance.

The passenger ships proposed to be built under the bills being considered by your committee at this time would constitute important commercial and defense lifelines and contribute materially to the maintenance of our international prestige. We are grateful that the committee is undertaking this review of the need for their construction and the methods whereby this can be accomplished.

Very truly yours,

ALEXANDER PURDON.

(The following letter was furnished for insertion:)

AMERICAN PRESIDENT LINES,
Washington, D. C., March 20, 1958.

Mr. JOHN DREWRY,
Counsel, Merchant Marine Committee,
House of Representatives, Washington, D. C.

DEAR MR. DREWRY: In accordance with your request, the contemplated operating schedule for a 31-knot passenger liner operating on Trade Route 29–E in the Pacific is respectfully presented:

Port	Calendar day of month	Arrive	Depart	Sea time		Port time		Speed
				Days	Hours	Days	Hours	
San Francisco	Nov. 1		1600					
Los Angeles	Nov. 2	0600	1500	0	14	0	9	26.3
Honolulu	Nov. 5	1300	2200	3	0	0	9	31.0
Yokohama	Nov. 11	1100	2200	4	18	0	11	30.9
Manila	Nov. 14	0600	1600	2	9	0	10	30.9
Hong Kong	Nov. 15	1300	2200	0	21	0	9	30.1
Yokohama	Nov. 18	0700	1600	2	8	0	9	30.8
Honolulu	Nov. 22	1100	2200	4	14	0	11	30.9
San Francisco	Nov. 26	0600		3	6	3	10	26.8
Total				21	18	6	6	

I might point out that tabulation of sea time takes account of difference of time zones at the various ports. The figure given for speed is computed from departure buoy to entrance buoy.

We consider that a 31-knot, 28-day schedule offers 3 advantages:

1. An outstanding American-flag service superior to foreign-flag competition.
2. Sailing day is always the same day of the week for each port.
3. Weekend overtime pay in port can be avoided at all but one port.

If additional data is desired we will furnish it very promptly.

Very truly yours,

GEORGE T. PAINE,
Vice President, Engineering.

SUPERLINER LEGISLATION

WEDNESDAY, MARCH 12, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met, pursuant to notice, at 10 a. m., in room 219, Old House Office Building, Hon. Herbert C. Bonner (chairman) presiding.

The CHAIRMAN. The meeting will please come to order.

There are several proposals before the committee which would authorize the immediate construction of a superliner passenger vessel to replace the steamship *America* and be equivalent to the steamship *United States*, together with a new superliner passenger vessel to be operated by American President Lines, Ltd., to augment the present transpacific passenger service provided by that company with the steamships *President Cleveland*, *President Wilson*, and *President Hoover*.

In the opinion of the Chair, testimony presented within the past month rather conclusively showed the need for additional high-quality, safe, and fully competitive passenger vessels for American-flag operation in the Atlantic and Pacific areas. The national defense need for such vessels was testified to by high officials of the Department of Defense in the most positive and urgent terms I have ever heard presented to this committee. And in these days, the element of national prestige in having such vessels flying our flag is of inestimable value.

The bills before the committee approached the same objective, but from several points of view. These different points of view were fully covered in the hearings we held a few weeks ago.

In the final analysis, the Chair believes that it was pretty conclusively shown that the proposed ships would not, in fact could not, be built for operation by private enterprise without recognition of their unique national value over and above that provided for under the basic formula of the Merchant Marine Act of 1936.

The special bills, therefore, are appropriate in view of the national need for a certain number of such vessels with special military auxiliary characteristics.

(For bills referred to see pp. 1–2.)

The CHAIRMAN. In our recent hearings, we heard from the president and other officials of the two companies, from the Under Secretary of Commerce, the Chairman of the Federal Maritime Board, the Comptroller General and his assistants, officials of the Atomic Energy Commission, and, for the Department of Defense, the Deputy Chief of Naval Operations for Logistics. There was no disagreement on objectives.

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However, since the several proposals varied somewhat from each other, and each presented some departure from the mechanisms of existing law, your committee suggested that the Comptroller General, an arm of the Congress, should review the proposals and report to the committee on the soundness of the calculations and forecasts of the two companies, and make suggestions to us as to the legislative approaches we might take to achieve the desired ends.

Since our last hearing, the Comptroller General and his staff have been making a careful study of the subject. They have been delayed, and naturally so, because of the inclement weather that prevailed in that period. They have now completed their review, and at the Chair's request are here today to make a report and otherwise assist the committee in its deliberations.

Representatives of the United States Lines Co., American President Lines, Limited, and the Chairman of the Federal Maritime Board are also present to join with the committee in an effort to resolve differences and arrive at constructive results which will produce the ships on a basis that will meet the national requirements and be fair and reasonable to the prospective operators from the standpoint of prudent commercial ventures.

The issues before us today are confined to the bills which have been under consideration by the committee. Therefore, I hope the questioning today and the discussion today will be confined to this part of this subject because we certainly have gone into all of the ramifications of the requirement of the ships, the necessity for the ships, and so forth.

I wish to say also that in deference to the two private operators, the Chair determined that this should be an executive meeting because we will deal with their financial operations in their private business, and I did not think it was fair to them to have the press and the public present. It is nothing unusual for this kind of procedure to be followed.

I ask anyone talking to the press to explain to them why this was done. Of course, in all probability there will be a further hearing which will be open, and the Chair prefers open hearings, but on this occasion I thought it only fair and proper that it be an executive session.

Our first witness this morning will be Hon. Joseph Campbell, Comptroller General of the United States. I wish to say that the Chair appreciates the cooperation that the General Accounting Office, Mr. Campbell and his staff have given in assisting us in this matter.

Mr. Campbell, the Comptroller General's office has prepared a report to the committee.

STATEMENT OF JOSEPH CAMPBELL, COMPTROLLER GENERAL, ACCOMPANIED BY E. LYLE FISHER, GENERAL COUNSEL, AND GEORGE H. STAPLES, ASSOCIATE DIRECTOR, CIVIL ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE

Mr. CAMPBELL. Mr. Chairman, at the hearing on February 10, as you have said, you requested a report from us.

The CHAIRMAN. May this report be distributed to all the members? This is your general statement now?

Mr. CAMPBELL. Yes, Mr. Chairman.

The CHAIRMAN. Do you have copies of that?

Mr. CAMPBELL. No, I have no prepared statement.

The CHAIRMAN. All right.

Mr. CAMPBELL. At the hearing on February 10, the committee requested the General Accounting Office to examine into the financial data submitted by the United States Lines and by the American President Lines relative to the two new vessels which you have been considering.

Mr. George Staples, associate director of our Civil Accounting and Auditing Division, and his assistant, Mr. Olson, have proceeded with this task and, as a result, we have here today a 9-page statement with certain exhibits. I shall be very glad to read this entire statement, Mr. Chairman, if you wish, but I can summarize by saying that we find no substantial discrepancies as between our findings and the records of the United States Lines.

We likewise in this report indicate the return which the United States Lines expects from its new vessel and, in my opinion and the opinion of our staff, the return is not unreasonable.

If you wish, sir, I will read the report.

The CHAIRMAN. I expect that you had better go over it, Mr. Campbell, for the benefit of the committee.

Mr. CAMPBELL. In response to request by the chairman, Committee on Merchant Marine and Fisheries, House of Representatives, during hearings before that committee on February 10, 1958, the General Accounting Office has examined financial data pertaining to proposed superliners, submitted by the United States Lines Co., and the American President Lines, Ltd. The data was filed with the committee during the course of hearings held in February 1958 on H. R. 9342, H. R. 9473, H. R. 9654, and H. R. 9432, 85th Congress, and was made available to the General Accounting Office by the companies. The projections of operating results for the superliners were based on conventionally powered vessels.

Our examination consisted of an analysis of the data submitted to the committee and the bases on which it was developed. In connection therewith we examined certain records of the United States Lines Co. at its main office, relative to operations of the steamship *United States*, and also reports submitted by that company and the American President Lines, Ltd., to the Maritime Administration and other pertinent information available within that agency.

This report includes the following two exhibits:

Exhibit I: Statement of the projected annual net operating results of the steamship *United States* and the proposed replacement of the steamship *America* as submitted by the United States Lines Co. to the committee but adjusted for differences disclosed by our examination.

Exhibit II: Statement of the projected net annual operating results averaged on a 20-year basis and the ratios thereof to estimated capital necessarily employed, for the proposed replacement of the *America* and the proposed superliner for the American President Lines, Ltd., computed on the different costs to the companies that have been suggested and on the basis of both Govrenment and private financing.

UNITED STATES LINES CO.

Basis of financial data filed with the committee: The financial data filed by the United States Lines Co. with the committee is a projection

of operating results for the replacement of the steamship *America*, based on (1) 5½ years' experience (June 1952 to December 1957) of operating the steamship *United States*, and (2) Government financing of the unpaid balance of the company's cost under the provisions of sections 502 (c) and 503 of the Merchant Marine Act, 1936, as amended, with interest at 3½ percent per annum. The company's data, summarized on an average yearly basis, shows:

	5½-year average		
	Steamship *United States*	Projection	
		New vessel	Combined
Profit before depreciation and mortgage interest	$5,019,979	$5,019,979	$10,039,958
Depreciation	1,614,714	2,193,750	3,808,464
Interest (3½ percent)	666,235	1,093,551	1,759,786
Profit before taxes	2,739,030	1,732,678	4,471,708
Taxes (52 percent)	1,424,296	900,992	2,325,288
Net profit	1,314,734	831,686	2,146,420
Cost of vessels	34,967,520	47,000,000	81,967,520
Percent net profit to cost	3.76	1.77	2.62

As the above summary shows, the projected financial operating results for the proposed superliner are the same as those for the United States during the period covered with the exception that increased depreciation and mortgage interest charges on the new vessel result in a reduced net profit. Depreciation on the new vessel is based on the fixed price of $47 million as the cost of the vessel to the company, less a residual value of $3,125,000 equivalent to 2½ percent of an estimated domestic construction cost of $125 million, and is calculated at 5 percent per annum over a 20-year period. The mortgage interest expense on the new vessel is predicated on a downpayment of $11,750,000 (25 percent of $47 million), leaving a mortgage of $35,250,000 to be amortized at $1,762,500 a year over a 20-year period, with interest at 3½ percent per annum on the unpaid mortgage balance.

Results of examination: Our examination of the data submitted by the company to the committee disclosed:

1. The net profit on the *United States* is subject to adjustment, principally of operating-differential subsidy upon determination of final subsidy rates by the Federal Maritime Board. Final subsidy rates have been established only through 1954 for wages and subsistence and through 1955 for all other items of subsidizable expense. The subsidy as shown in exhibit I is based on the latest final rates applied to the subsidizable expenses for each year. The subsidy on wages represents about 85 percent of the total subsidy.

2. The average net operating results of the *United States*, submitted by the company to the committee, are based on actual experience with the exception of the following items:

	Per company
Allocation, various income items	$448,258.29
General administrative expense	1,676,956.67
Allocation, various expense items	337,201.22

These items, which are recorded on an overall basis, are allocated to individual vessels in the proportion which the voyage revenue of

the vessel bears to total voyage revenue. However, the above items were apportioned, in general, on a projected basis, i. e., the ratio of the voyage revenue of the *United States* to the total voyage revenue, including the estimated revenue from the new vessel in the same amount as that for the *United States* and excluding the voyage revenue of the *America*. Since the company anticipates no substantial change in the amounts of the above items on an overall basis upon the operation of the new vessel in place of the *America* and since the estimated revenue from the new vessel will be substantially more than that of the *America*, the allocation on the projected basis reduces the amount allocable to the *United States* and thereby increases the net profit attributable to it. The average decreases may be summarized as follows:

	Actual	Projected	Decrease
Allocations, various income items	$457,679	$448,258	89,421
General administrative expense	1,828,357	[1] 1,663,772	164,585
Allocations, various expense items	343,098	337,201	5,897

[1] As adjusted by GAO (see item 3).

3. Adjustments recorded by the company applicable to prior year operations were not included in the financial data filed with the committee; also preliminary amounts had been used for certain items for which the final amounts were not available at the time the data for the committee were compiled. In addition we noted that the advertising and general administrative expenses had not been correctly allocated. The overall effect of correction for these differences increases the average annual net profit of the United States by $46,422 over that shown in the financial data filed by the company with the committee. The nature of these corrections and their individual amounts, averaged to an annual basis, are:

	Amount
Increase in voyage revenue	$43,007
Increase in voyage expense	—64,329
Additional operating-differential subsidy	145,972
Erroneous allocation of advertising expense	—41,122
Erroneous allocation of general administrative expense	13,185
Total	96,713
Less Federal tax (52 percent)	50,291
Total	46,422

The adjusted projected operating results are shown in exhibit I.

Other factors for consideration: The position of the United States Lines Co. is that the company is not prepared to pay more than $47 million for the new vessel and then only on the basis of Government financing and only providing it can sell the steamship *America* for $10 million.

1. Disposal of the *America:* The manner in which the *America* is disposed of has a bearing on the financial aspects of the acquisition of the proposed replacement. If it is to be traded in, but used by the United States Lines Co. during the period of construction of the new vessel, the 1936 act will operate to reduce the trade-in allowance by the fair value of such use, thus requiring additional cash outlay by the company.

The *America* has a residual value of $440,575.50 (2½ percent of $17,623,019.99), is depreciated at the rate of approximately $597,000 a year, and will reach the end of its 20-year life on July 1, 1960.

2. *Other matters:* To avoid possible disputes, we believe that there should be clear understanding (if necessary, by revision of the bills being considered by the committee) as to whether or not the fixed price is intended to include certain related items of cost not included in the bid specifications, such as changes and extras and outfit and equipment. In addition it is assumed that the company would pay interest during construction as provided in section 502 (c) of the 1936 act but, since the bills stipulate a fixed price for sale by the Government, it may be desirable to clarify this point. The United States Lines Co. has estimated that interest charges during construction based on a price of $47 million with Government financing will amount to about $1,500,000. The statements in exhibits I and II accompanying this report do not include charges for interest during construction. It was not included in the financial data submitted to the committee by the United States Lines Co., but was included by American President Lines, Ltd. The regulations of the Maritime Administration provide that interest during construction be considered as part of the cost of a vessel to the owner and included in annual charges for depreciation.

AMERICAN PRESIDENT LINES, LTD.

The American President Lines, Ltd., filed with the committee appendixes as supporting data for the proposed construction of a passenger liner for operation in the Pacific Ocean, of which the financial aspects were stated in appendix D. Considerations of the feasibility of such a vessel were based on (1) estimated annual profit of $3,533,200 before depreciation, financing costs, and taxes, and (2) a vessel costing the company $41,610,000, exclusive of interest costs during the period of construction, with downpayment of $10,402,500 (25 percent of $41,610,000), leaving a mortgage balance of $31,207,500, all of which, as shown in schedules 1 and 2 of appendix D, are summarized as follows:

	Yearly average, 20 years	
	(Schedule 1) Private financing (5½ percent)	(Schedule 2) Government financing (3½ percent)
Profit before depreciation, financing costs, and taxes	$3,533,200	$3,533,200
Depreciation	$1,989,250	$1,989,250
Financing costs:		
Mortgage interest	$965,594	$573,438
During construction	$111,650	$71,050
Profit before taxes	$466,706	$899,462
Taxes (52 percent)	$242,699	$467,720
Net profit	$224,007	$431,742
Owner's net investment averaged on a 20-year basis	$6,328,188	$7,074,213
Percent net profit to net investment	3.540	6.103

The American President Lines, Ltd., subsequent to its submission of the appendixes, requested equality of treatment with the United States Lines Co. for the replacement of the *America* and therefore concluded that the fixed price of $47 million proposed for that ship is the equivalent of a fixed price of $34 million for the transpacific superliner, with Government financing. It is believed that the sales price of $34 million was computed to yield an expected rate of return on the APL capital necessarily employed almost, but not quite, equal to the rate expected for the United States Lines Co., based on the same average annual net profit before depreciation, financing costs, and taxes as shown in appendix D; namely, $3,533,200.

The American President Lines, Ltd., does not have an equivalent superliner as a base for projecting the operating experience of a new vessel. Its estimate of voyage earnings is based on a composite of experience and trends which are considered likely to exist in the year in which the new vessel is to be put in operation. From our analysis of the data submitted, the bases on which the operating voyage results were projected appeared reasonable.

EXHIBIT 1.—*Projected annual operating results of steamship "United States" and new passenger vessel costing $47,000,000 submitted by United States Lines Co. to House Merchant Marine and Fisheries Committee as adjusted by the General Accounting Office*

	Average (5½ years)		
	United States	*New vessel*	*Together*
Voyage revenue	$19,610,818	$19,610,818	$39,221,636
Voyage expense	18,728,740	18,728,740	37,457,480
	882,078	882,078	1,764,156
Operating-differential subsidy	[1] 6,333,260	[1] 6,333,260	[1] 12,666,520
Allocation, various income items	[2] 448,258	448,258	896,516
Total income	7,663,596	7,663,596	15,327,192
Layup expenses	39,189	39,189	78,378
General administrative expense	[2] 1,663,772	1,663,772	3,327,544
Advertising	506,741	506,741	1,013,482
Interest at 3½ percent per annum	666,235	1,093,551	1,759,786
Depreciation	1,614,714	2,193,750	3,808,464
Allocation, various expense items	[2] 337,201	337,201	674,402
Total expense	4,827,852	5,834,204	10,662,056
Net result	2,835,744	1,829,392	4,665,136
Less:			
Federal tax	1,474,587	951,284	2,425,871
Subsidy recapture			
Net profit	1,361,157	878,108	2,239,265
Cost of vessel	34,967,520	47,000,000	81,967,520
Percent net profit to cost	3.89	1.87	2.73
Capital necessarily employed (CNE)	$13,152,000	$12,100,000	$25,252,000
Percent net profit to CNE	10.35	7.26	8.87

[1] Subject to adjustment on determination of final subsidy rates (see p. 4).
[2] Allocated on a projected voyage revenue basis.

NOTE: The above statement does not include interest during construction as part of capital necessarily employed or an annual charge for the amortization thereof. The United States Lines estimated total interest during construction at $1,500,000 with Government financing. On this estimate the average annual amortization over a 20-year period would be $75,000.

EXHIBIT II.—*Summary statement of projected annual net results for replacement of steamship "America" and proposed superliner for American President Lines, Ltd., computed on various bases*

Replacement of Steamship *America:*				
Cost of vessel to company	$47,000,000		[1] $56,000,000	
Financing	Public (3½ percent)	Private (5 percent) [2]	Public (3½ percent)	Private (5 percent) [2]
	Yearly average, 20 years			
Profit before depreciation and mortgage interest	$5,116,693	$5,116,693	$5,116,693	$5,116,693
Depreciation	2,193,750	2,193,750	2,643,750	2,643,750
Interest	647,719	925,313	771,750	1,102,500
Net profit before taxes	2,275,224	1,997,630	1,701,193	1,370,443
Taxes (52 percent)	1,183,116	1,038,768	884,620	712,630
Net profit	1,092,108	958,862	816,573	657,813
Estimated capital necessarily employed (CNE)	12,100,000	12,100,000	14,325,000	14,325,000
Percent net profit to CNE	9.03	7.92	5.70	4.59
Proposed superliner for American President Lines, Ltd.:				
Cost of vessel to company	$34,000,000		$41,610,000	
Financing	Public (3½ percent)	Private (5½ percent) [2]	Public (3½ percent)	Private (5½ percent) [2]
Profit before depreciation and mortgage interest	$3,533,200	$3,533,200	$3,533,200	$3,533,200
Depreciation	1,605,000	1,605,000	1,989,250	1,989,250
Interest	468,563	736,313	573,438	901,117
Net profit before taxes	1,459,637	1,191,887	970,512	642,833
Taxes (52 percent)	759,011	619,781	504,666	334,273
Net profit	700,626	572,106	465,846	308,560
Estimated capital necessarily employed (CNE)	8,750,000	8,750,000	10,652,500	10,652,500
Percent net profit to CNE	8.01	6.54	4.37	2.90

[1] Established cost of 30.7-knot ship under the 1936 act as suggested by Department of Commerce.
[2] Rates estimated by United States Lines Co. and American President Lines, Ltd.

NOTE: The above statements do not include annual amortization of interest during construction and other finance costs incident to private financing.

A second request you made to us was to work with your staff on the bills themselves. Mr. Fisher, our general counsel, Mr. Arch B. Brown, and Mr. Miller, of our general counsel's office, have worked, I believe, with your staff in making suggestions for certain revisions of the two bills which you have before you.

The CHAIRMAN. Does that conclude your statement?

Mr. CAMPBELL. That concludes my statement.

The CHAIRMAN. Mr. Garmatz.

Mr. GARMATZ. The two bills that are typed here are the revisions of the original bills, including the changes proposed?

The CHAIRMAN. I will let counsel answer that question.

Mr. DREWRY. Mr. Fisher, you gave me a marked copy. I suppose it would be useful if I were to go through the bill so that the members could mark the various parts where the changes were made.

Mr. FISHER. I think so, because we have taken the two bills that were considered, H. R. 9342 and H. R. 9432, and made some insertions.

Mr. DREWRY. The bill to authorize a sister ship of the *United*

States, the third line from the bottom in H. R. 9342, after the word "provided," underscore the balance of that line and the next two, to the end of the sentence on page 2.

Then in the next sentence, beginning with "terms and conditions," underscore the words "including but not limited to payment of interest during construction of the new vessel."

In section 3, underscore the words in the third line, "including any allowance of credit for trade-in of the S. S. *America* reduced by any use charges," and underscore all of section 5.

The underscored portions indicate the changes included in the suggested revision by the General Accounting Office.

On the other bill, H. R. 9432, in the title the words "by American President Lines, Ltd." constitute a change in the original bill which said "for operation in the Pacific Ocean."

Then in the sixth line, underscore the words "American President Lines, Ltd." There was no specific statement other than that.

Section 2, in the fifth line, beginning at the words "at a price" and all the way to the end of the sentence in the second to the last line from the bottom is all new material.

In the last line on page 1, underscore the words "including but not limited." Then over on the next page in the first line to the words "payment of interest during construction of the new vessel."

In section 3, second line, underscore beginning with "including any," and the next line in full, "allowance of credit for trade-in of any obsolete vessel reduced by the use charge."

Section 5 is new in its entirety.

Those represent the changes which the General Accounting Office has suggested should be considered inasmuch as they apparently are points that ought to be clearly brought out at this time for discussion.

Did I state that correctly, Mr. Fisher?

Mr. FISHER. That is correct.

The CHAIRMAN. I think we had better discuss and explain these changes so that it will be thoroughly understood.

Mr. DREWRY. I think it would be preferable to have Mr. Fisher explain it.

The CHAIRMAN. We can go back over the statement of the Comptroller General as to these items. I will let the counsel question you, Mr. Fisher, and Mr. Campbell, as to certain questions that are marked in your general statement on page 6.

Mr. DREWRY. In the paragraph under the heading "Disposal of the *America*," as I understand it, this draft intends to take into account, in section 3, that any allowance of credit for trade of the *America* would reduce the net value, net trade-in amount.

Mr. FISHER. That is right; and would require additional cash to be put up by the operator.

Mr. DREWRY. That is the basic requirement of the 1936 act?

Mr. FISHER. That is the requirement of the 1936 act.

And we have inserted this language because, as I think we brought out in our earlier testimony, we had doubt as to just how it was intended that the trade-in would be treated. We assumed that it would be treated under the regular provisions of the 1936 act, so that we have suggested putting the language in the bill to remove any doubt.

Mr. DREWRY. That is the sole purpose of that change?

Mr. FISHER. That is the only purpose.

The CHAIRMAN. That is with respect to the utilization of the *America* during the period of construction of the new vessel and the charge that will be made for it?

Mr. DREWRY. That is correct, sir.

Mr. THOMPSON. Mr. Chairman, may I ask a question on that point?

The CHAIRMAN. Yes.

Mr. THOMPSON. If, as stated, the 20-year life of the *America* will be reached on July 1, 1960, and the residual value is stated to be about $450,000, how long would it take to construct the proposed new vessel, and how would the use charges be computed generally?

Mr. FISHER. I think they anticipate that it will take about 3 years to construct the new vessel and the use charge would be figured on this basis at roughly 10 percent of the trade-in value. It is estimated that the trade-in value may be 8 or 9 or 10 million dollars.

The use charge for each of those 3 years would be deducted.

Let's assume that it is $10 million in round figures. The use charge would be $1 million a year for the 3 years. That would be $3 million deducted from the trade-in value so that U. S. Lines would have $7 million allowance for the trade-in and would have to put up cash to make the difference of roughly $12 million on the $47 million ship.

Mr. THOMPSON. Actually, the use charges would greatly exceed the residual value as computed after depreciation has been charged off each year?

Mr. FISHER. Yes, sir; and I understand that there may be some question as to the feasibility or practicability, from an economic standpoint of trading in the *America* and being required to pay that use charge.

Mr. THOMPSON. That settles my question. Thank you.

Mr. DREWRY. Your next point touched on the statement, still on page 6 of Mr. Campbell's statement:

> To avoid possible disputes, we believe that there should be clear understanding, if necessary, by revision of the bills being considered by the committee, as to whether or not the fixed price is intended to include certain related items of cost not included in the bid specifications, such as changes and extras and outfit and equipment.

That appears in section 2, does it, of your revised draft?

Mr. FISHER. Yes, sir; under the first proviso of section 2.

Mr. DREWRY. Is that again in line with the practice under the 1936 act?

Mr. FISHER. No. If I may say, Mr. Chairman, we are not certain what the committee wants. We have put in this proviso so that it could be thrown out on the table to be considered.

In our previous testimony, we suggested that there might be considered the possibility of fixing an outside limit on the ultimate cost of this vessel. We are talking now in terms of $128 million or $130 million, but there is no reason that that could not be increased to $140 million or $150 million or $160 million under the terms of the present bill, so that we have suggested that we make clear just what this $47 million covers.

Take, for example, the fin stabilizers that I think are estimated to cost $2 million or $2½ million that are not on the steamship *United*

States, but there is an outstanding bid in for that item. Would that be an extra on which the Government would assume the whole burden?

Does the United States Lines have to pay nothing in addition to $47 million, no matter what changes might be made in the vessel after construction starts, technological or otherwise; deluxe equipment, something that might be desirable only from the United States Lines point and not necessarily from the standpoint of the Government, non-national defense features?

As this worded, it would throw the whole burden of all of those changes after the original contract is made upon the United States Lines. The present practice on those items and on escalation, too, is to prorate it between the Government and the operator.

The CHAIRMAN. You do not mean that it would throw the entire burden of the cost of those items on to the United States Lines?

Mr. FISHER. The way this proviso reads, Mr. Chairman.

The CHAIRMAN. We would certainly only want to throw the proportionate part between foreign and domestic construction on them. At the most, that would be it.

Mr. FISHER. That is the existing practice, to prorate it in proportion to the differential.

The CHAIRMAN. Is that going to be taken care of?

Mr. FISHER. We are not suggesting that this is the way it ought to be.

The CHAIRMAN. I understand. I thought of just what you are talking about. This bill provides that this ship will be built under an existing bid with the possibility of additional costs, so that we would provide for them under the subsidy formula.

Mr. Morse would work out that proposition, would he not?

Mr. FISHER. Yes, sir; that could be worked out very readily.

Mr. DREWRY. But not under this language?

Mr. FISHER. Not under this language.

The CHAIRMAN. Well, we want the proper language.

Mr. FISHER. That could be changed very easily, I think.

The CHAIRMAN. That is in both cases?

Mr. FISHER. Yes, sir.

Mr. DREWRY. That brings up another question, Mr. Fisher.

You use not only changes and extras, but outfit and equipment. Does the term "outfit and equipment" include what is frequently called owner-furnished items, in your opinion?

Do you contemplate that the $47 million figure would include hotel equipment, so called?

Mr. FISHER. Under this proviso here, I think that would require the owner to pay all of that. Under the existing practice, that is prorated, too, and that normally is not in the original contract so that, if the owner is to get some contribution from the Government on that, that ought to be taken care of in the language.

Mr. DREWRY. That point was not discussed at the hearings, was it?

Mr. FISHER. I am not sure.

Mr. DREWRY. I do not recall that it was covered.

Mr. FISHER. I do not believe it was brought out at the hearings, but it was brought out in our report.

Mr. DREWRY. Yes, I believe you did mention it.

The next point mentioned in that some page is reference to payment of interest during construction. You point out that that is the standard procedure under the 1936 act.

Mr. FISHER. That is right; yes, sir.

Mr. DREWRY. But that it was not, in your opinion, completely clear as to what was contemplated here?

Mr. FISHER. No, sir. When the bill says they shall pay $47 million, we assume that they would also pay interest on the mortgage during construction, but it was not clear and we just do not want any legal arguments afterward as to what they are supposed to take care of.

Mr. DREWRY. That is also covered in section 2 in the second sentence on the top of page 1, with that "including but not limited to payment of interest during construction."

Mr. FISHER. Yes, sir.

Mr. DREWRY. Mr. Tollefson asks whether the statement of projected earnings took this into account?

Mr. CAMPBELL. No, it did not.

Mr. DREWRY. So that that would reduce the net return of earnings, would it not?

Mr. FISHER. It is my understanding that that might reduce it as much as 1 or 1½ percent.

Mr. DREWRY. Now, Mr. Fisher, in section 5, you introduce something of an entirely new element. I wonder if you would mind discussing that with a little more elaboration.

Mr. FISHER. Under the 1936 act, when an operator makes a profit in excess of 10 percent, the Government is entitled to recapture 50 percent of that excess profit. We recognize to start with that we have a situation now that does not quite fit the 1936 act, in that the part that the Government is going to pay will probably exceed the allowances authorized under the 1936 act.

This suggestion in section 5 is that, because the Government is bearing a greater burden, perhaps it ought to be entitled to recover more than 50 percent of the excess profit over 10 percent. This suggestion is that that excess profit be divided 75 percent to the Government and 25 percent to the operator with respect to the operations of this vessel only.

I would say that, if the operation of this vessel does not result in a profit in excess of 10 percent, that then the operations would come under the whole fleet.

Mr. DREWRY. The present practice within the past few years has been to consolidate the accounting of the entire fleet of a company?

Mr. FISHER. Yes, sir.

Mr. DREWRY. And not just service by service, by the entire fleet, passenger and cargo?

Mr. FISHER. That is correct.

Cargo maybe could pick up losses of the passengers, or vice versa, and this would require, though, that if the operation of this superliner itself results in a profit in excess of 10 percent, the Government would recapture 75 percent of that excess without regard to the other operations.

Mr. DREWRY. Well, just from the passenger ship standpoint, would not the *United States* and the new ship be operated, as far as the company is concerned, each in the same way for the same purpose? Is not this separation of this individual ship from the operations of the other ship likely to cause confusion?

Mr. FISHER. That might cause confusion, Mr. Drewry.

Of course, I would be very anxious to hear what the operators have to say about this provision. We are just suggesting that perhaps the Government ought to get a little bit more back if there is a substantial profit here because of the greater contribution it is making.

Mr. TOLLEFSON. Would it be difficult to keep records with respect to the operation of a single ship? Are there many items of operating cost?

Mr. STAPLES. As the accounts are maintained under the present procedure, Mr. Tollefson, the company has the results and the detail of the operations of each individual ship, so that that part of it would be no added burden.

Mr. ALLEN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. With regard to the replacement of the *America*, would not a natural effect of this provision be to furnish an incentive to the operator to throw the trade as much as possible to the older ship, the *United States*, and to use the new ship to take care of what trade was beyond that in order to keep the recapture down on the ship having the higher recapture provision?

Mr. FISHER. That is probably a possibility, but their experience with the *United States* and the capacity they have enjoyed over the 5½-year period does not give them much leeway to do that.

Mr. ALLEN. I suppose there would be no objection if they both run full.

Mr. STAPLES. Mr. Allen, they will be running under more or less of a fixed schedule anyway with 2 ships, so that it does not allow any room for diverting good trade or bad trade 1 way or the other.

Mr. ALLEN. Thank you.

Mr. DREWRY. I have just one more question.

The 2 bills, as these suggested changes have been made, are identical except in 2 respects:

One, for change from reference to the area of operation; and the other in the first part of section 2 of the APL proposal, provides a different basis for computing price.

I think it might be worthwhile at this point to elaborate a little on how you arrived at the differences.

Mr. FISHER. We will be glad to do so. We had a little bit of difficulty with this because in the case of the superliner to replace the *America*, we have an outstanding bid, and it has already been determined what the domestic cost of that vessel for commercial operations would be.

The figure of $47 million, which the United States Lines would pay toward that, amounts to roughly 45 percent. Now, in the case of the APL superliner, we have no outstanding bids. We do not know what it will cost by the time a contract is let.

Since we assumed both companies were to be treated on the same basis, the only reasonable figure we could come up with would be a percentage basis of 45 percent of the cost of that vessel, which is the same as the United States is paying; $47 million would be 45 percent of that superliner. That could, of course, be changed to a dollar figure for the American President Lines ship, but then it is more of an estimate because we do not know what the final figure will be.

Mr. DREWRY. On that point, as I understand, the United States Lines definite dollar figure, of course it has the great advantage of

the operating experience of an existing ship, but this American President Lines ship is based upon what you have found to be reasonable estimates, trends and assumptions based upon existing operations and what may be expected in the future.

Again, if those estimates turn out correctly, the dollar figure would produce a rate of return comparable to the United States Lines?

Mr. FISHER. That is correct; yes, sir.

Mr. DREWRY. So that the only problem is that there is a danger one way or another that, when the final cost of the ship is determined, exclusive of the national defense features, that it may turn out to a much lower rate or a much higher rate.

Mr. FISHER. I presume it could vary either way perhaps several million dollars, which would make an entirely different picture.

Mr. DREWRY. Can you conceive of an approach that would apply the dollar figure and have an adjustment feature when the price of the ship is determined?

Mr. FISHER. It does not seem to me as a very practical way of doing it, but you could put a dollar figure in here of, say, $34 million, plus some percentage of any excess over $78 million that the new vessel cost but that, it seems to me, is a little more difficult.

Mr. DREWRY. You are just as unprecise that way as with a percentage figure?

Mr. FISHER. Yes.

Mr. DREWRY. On page 8, and this applies also in connection with the United States Lines calculation, you have two schedules 1 and 2, one of them private financing at 5½ percent, producing a percentage of net profit to net investment of 3.540 percent.

First of all, that percent of net profit to net investment is the same as "capital necessarily employed," is it not? That terminology means the same?

Mr. STAPLES. That is a net investment figure, Mr. Drewry, which the American President Lines used and also, it is predicated upon a 20-year average. It involved then the initial investment they would make, because they would prorate that, and it would gradually diminish over the years.

Mr. DREWRY. Then that is still a different approach.

Mr. STAPLES. That is a different approach and, since we are representing these figures here as being those presented by the American President Lines, we did not change them. That is one of the reasons why we submitted a separate exhibit in the back which constitutes a different approach to it, based upon the capital necessarily employed, as would be computed by the Maritime Administration.

Mr. DREWRY. Now, you note that this is calculated at 5½ percent interest, private financing. There has been talk recently of the dropping of interest rates.

Do you have any information on whether there would be any actual change in interest rates at the present time in private financing on 25-year ship construction?

Mr. STAPLES. We do not have any direct information on that. The reason we selected that is because Mr. Killian, I believe, in testifying before this committee, was very strong on the point. I think that that very question came up that they should try to get financing, say at 5 percent, and I belivee that Mr. Killian made a very strong point that they had been conducting some negotiations with their bankers

and financial interests and that 5½ percent represented the best that they could hope to get the way things stood at the present time, so that we did not feel qualified to change that.

That is the reason why you will note on exhibit 2 that we have used 5½ percent for the APL and 5 percent for the United States Lines, simply because those are the percentage figures which those companies themselves submitted.

Mr. DREWRY. Then we can ask Mr. Poole that when he comes to the stand.

I have no further questions, Mr. Chairman.

Mr. TOLLEFSON. Mr. Chairman.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. With respect to the new *United States*, the projected earnings net profit are based upon the 5½ years experience with the old *United States?*

Mr. STAPLES. That is right.

Mr. TOLLEFSON. And as I recall the testimony, it has been operating at 95 percent capacity.

Mr. CAMPBELL. That is correct.

Mr. TOLLEFSON. Those 5½ years were the highest years in our country's economy. Bearing in mind that there are some fixed expenses in the operation of a ship which do not vary whether the ship runs 25 percent, full, or what, what would be the effect, if you could tell me in a general way, if the capacity should drop to 80 percent rather than 95 percent?

Mr. STAPLES. We have made no calculations on that. Obviously, it is trite to say that it would have a very significant effect. I do not think I could state it at this moment in terms of dollars and cents.

Mr. TOLLEFSON. Would it be possible for you to estimate whether or not a drop down to 80 percent capacity would result in a loss operation?

Mr. STAPLES. I could only say that it could, and the reason I equivocate a bit on that is that with a drop in revenue, there are certain expenses which will drop also. There are others, as you pointed out, which will not vary, so that if you are going to consider the effect on a sliding scale, it would be necessary in order to be reasonable to consider all those elements that would be affected both on the revenue and the expense side.

Mr. TOLLEFSON. Your projections are based upon the most optimistic estimates?

Mr. STAPLES. These are the United States Lines projections.

Mr. TOLLEFSON. I appreciate that, but with a 95 percent capacity, certainly that is about as optimistic a projection as you could get.

Mr. STAPLES. I cannot disagree with that. That is very optimistic, I would say.

Mr. TOLLEFSON. With respect to the APL proposed ship, while you do not have experience as you had with the old *United States*, are the projections likewise optimistic?

Mr. STAPLES. They are not nearly as high.

Trusting my recollection, I believe that their estimates were predictated on an average occupancy somewhere in the neighborhood of 75 percent. I say that subject to correction, but I believe that that is what their appendixes brought out.

The CHAIRMAN. Mr. Garmatz.

Mr. GARMATZ. I have no questions.

The CHAIRMAN. Mr. Robeson.

Mr. ROBESON. I would just like to ask one question. I may be confused, but it seems to me that with this proposed bill as we have it now that the United States Lines will end up paying more than the $47 million; is that right?

Mr. STAPLES. The chances are that they will, sir.

Mr. ROBESON. Approximately how much more?

Mr. STAPLES. That is a pretty hard thing to say because in the construction of almost every ship there are changes and extras that come about. It has just been traditional.

Mr. ROBESON. It will be several million dollars more, apparently?

Mr. STAPLES. It could be. That depends on just how restrained all the parties concerned are in making changes in the ship once the keel is laid.

Mr. ROBESON. Then is it safe to assume that the $47 million would be lower than they would have to pay?

Mr. STAPLES. I think that would be a reasonable statement, yes.

Mr. ROBESON. So that when we are talking about $47 million, it is $47 million-plus that they are going to pay?

Mr. STAPLES. That is right.

Mr. ROBESON. Thank you.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. I have no questions.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. I notice in the American President Lines bill that the provision is to be equal to 45 percent of the domestic cost of construction.

As I understand the 1936 act, the percentage is a result of the difference between the foreign price and the domestic price and the subsidy is not determined as a percentage before the bids are taken; is that correct?

Mr. STAPLES. That is correct, Mr. Allen.

Mr. ALLEN. It is also part of the provisions of the 1936 act that the low bid need not necessarily be taken if there are other considerations which make it desirable to place the construction in a yard other than that of the low bidder.

Mr. CAMPBELL. I think Mr. Fisher might answer that.

Mr. ALLEN. I am saying that that is what the act says now, I believe, as a preliminary question.

Mr. FISHER. I would not want to say categorically offhand that that is correct. I am not disputing your statement. I think your question probably will bring out what you have in mind.

Mr. ALLEN. That is preliminary to this question.

Under this bill, the increased cost if the ship were built in a yard other than that of the low bidder would be passed on in part to the purchaser of the ship, whereas, under the normal situation now, the increased cost is considered as a national defense feature and not passed on; is that correct?

Mr. FISCHER. No, I do not think that would happen under this bill because, under this bill, the United States Lines is only going to pay $47 million of the original cost.

Mr. ALLEN. I am speaking of the American President Lines.

Mr. FISHER. Well, that is a possibility if you are thinking in terms of 6 percent differential for west coast yards or the allocation feature.

Mr. ALLEN. I am thinking of the allocations that were just made. I am wondering if this bill would put the purchaser of a ship in a position where he would be fighting to get the low cost on the total price, which is not the case necssarily under the present law.

Mr. FISHER. I do not believe that that would affect it, Mr. Allen, for this reason: He is to pay 45 percent of the domestic cost of construction of a commercial vessel as determined by the Maritime Commission.

I feel certain they would determine that the domestic cost of construction of that vessel is at the low bid.

Mr. ALLEN. Well, assuming that that is correct, if they then wished to allocate the ship to another yard——

Mr. FISHER. The Government would have to pay that as part of the national defense features.

Mr. ALLEN. Would the provision of this bill permit that and would the General Accounting Office interpret the language here to mean the cost would be the low bid rather than the cost of the ship as constructed?

Mr. FISHER. Well, I would want to hear from Mr. Morse on that, but I am inclined to think that he would say that the domestic cost of constructing the ship is the low bid and that is the figure that we would use in computing the 45 percent.

Mr. ALLEN. There is no intention in forming this language to vary from the other provisions of law in the 1936 act with regard to allocation for national defense purposes?

Mr. FISHER. No, sir; not at all.

Mr. ALLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Thompson.

Mr. THOMPSON. I have one question in regard to the million and a half dollars estimated interest to be paid during the time of construction. To what operation would that be charged?

Mr. CAMPBELL. That would be a capital investment. It would increase the capital necessarily employed.

Mr. THOMPSON. There would be no possibility of their using a portion of this to be charged as expense during the time of operation of the *America?*

Mr. CAMPBELL. No, it would not be. The interest on construction would be a cost of the new vessel and it would reduce the earning percentages to which I referred.

Mr. THOMPSON. At the same time, they do not have the use of the vessel during this period of construction, and I wondered if there would not be a possibility of charging off at least part of it as an expense of the operation of the *America* during time of construction.

Mr. STAPLES. That is not the prescribed accounting form. The interest during construction is considered to be part of the operator's investment in the ship. That is what it cost him to buy that ship.

In this case, it would be added to the $47 million and then depreciation would be taken each year on the total of $47 million plus the interest, whatever the interest during construction is.

Mr. THOMPSON. When you mentioned that you did not include that in your forecast, I though perhaps you had some other method.

Mr. STAPLES. No, we do not have any other method.

One of the reasons we did not include it is because when you deal here, as we have dealt, with private financing, the whole subject gets pretty sticky and the same general rules do not apply. Also because the United States Lines made an estimate, I believe, of a million and a half dollars predicated upon the $47 million.

There were no other estimates made by either American President Lines or in connection with the other bases on which the ship might be purchased, so that we thought that, in view of the paucity of information we had on it, that we would not consider it and leave that as an open question.

Mr. THOMPSON. Well, the use of that million and a half dollars would change your percentage of net profit.

Mr. STAPLES. Definitely it would.

Mr. THOMPSON. That is all.

Mr. CAMPBELL. It would make a difference of about 1 percent.

The CHAIRMAN. Mr. Van Pelt.

Mr. VAN PELT. I have no questions.

The CHAIRMAN. Mr. Mailliard.

Mr. MAILLIARD. Yes, Mr. Chairman.

Mr. Campbell, would there be any reasonable feasibility to combining these two bills, making them conform somewhat?

What I am getting at is why could we not use a percentage basis in both cases, so that we could report one bill and would not have to explain why they were different, and so forth.

Is the $47 million and the 45 percent a comparable figure?

Mr. CAMPBELL. In answer to your first question, Mr. Mailliard, we do think it could be one bill.

As to the use of the percentage, I will ask Mr. Fisher.

Mr. FISHER. I think so. We arrived at the 45 percent in that the $47 million is 45 percent, I believe, of the $105 million which has been the commercial cost of the construction of the commercial vessel here, so that it would be a question of just a few dollars either way, and perhaps we could put them both on the 45-percent basis.

Mr. MAILLIARD. Taking, then, the bill for the American President Lines as the pattern, and getting to this proviso: "However, such price shall be increased to reflect the full amount," if we change the word "full" to "proportionate," that would bring it into conformity with the present practice, would it not?

Mr. FISHER. I would want to think about that.

Offhand, it seems that it would. "In the same proportion"—it seems to me that it would.

Mr. MAILLIARD. So that if we could draw one bill that would allow these two ships to be built at a cost of 45 percent, additions being apportioned between the Government and the company, then it seems to me as nearly as I can look at these two bills that the one thing you might have to put in would be a special provision that the replacement for the *America* could be constructed under existing bids.

That is about the only difference between the two that I can see.

Mr. FISHER. That is about all.

Mr. MAILLIARD. Those provisions ought to be able to apply to both.

Mr. FISHER. In one we say 45 percent, and in the other we say $47

million. That is the only difference. I think that could be worked out very readily.

Mr. CAMPBELL. I assume that the United States Lines would have some comments on that.

Mr. MAILLIARD. They might have. I wondered, from your point of view, whether there was a technical impediment to doing it. Is there?

Mr. FISHER. I do not think so.

Mr. ALLEN. Will you yield?

Mr. MAILLIARD. Yes, sir.

Mr. ALLEN. In that event, the Government would be paying 55 percent of the cost. Would it be getting the same features in each ship for the 55 percent that it would be paying?

I have in mind in the case of the replacement of the *America*, the Government would get 6 or 7 knots of speed in excess of commercial requirements, while in the American President Lines ship, it might not. I am wondering if we are getting into a field where we are fixing a percentage as though we are buying the same additional features for the same amount of money, when in practice we would not be doing so.

Mr. FISHER. Of course, under the two existing bills, you are not getting the same ship under each bill anyway.

I think the APL ship would do about 26 knots as compared with the United States Lines 30.7 for operations, and there is something like $30 million difference in the estimated costs of the 2 vessels to start with.

Mr. ALLEN. Does that add up to a result that, in effect, each of these ships as they come along must be considered as a separate transaction, fitting a variety of circumstances, and the fact that 45 percent would be used in each case does not indicate similarity of what the Government is obtaining?

Mr. FISHER. There would be no restriction in the bill itself, as far as I can see, as to why you could not build two superliners equivalent to the steamship *United States* if this was combined, but I understand that the operation of one like that would not be feasible in the Pacific to start with.

Mr. ALLEN. Thank you.

Mr. MAILLIARD. Pursuing that line of questioning, there is nothing in this bill which would prevent the Government from adding any national-defense features. This would not be at a price to the company at all?

Mr. FISHER. That is right.

Mr. MAILLIARD. So that if the excessive speed in let's say the replacement for the *America* was very much greater than in the case of the APL ship, the Government would pay for that separately?

Mr. FISHER. Yes, sir.

Mr. MAILLIARD. So that 45 percent is not the total cost of the ship. Neither can you say, as I understand it, that 55 percent would be the total cost of the ship, because the Government could add any amount of defense features.

Mr. FISHER. That is right, and our proviso excludes the national-defense features as being a charge against the company.

The point I was trying to make was that on the replacement for the Steamship *United States*, you are authorizing the use of an outstand-

ing bid, so that we know at the start just about what ship we are going to get.

On the APL, other than what you have been told is desired, there is no limit in the bill as to what it might be.

Mr. MAILLIARD. Getting to the point Mr. Thompson was making, it seems to me that if you do use a percentage and provide for the changes to be paid for proportionately, you then have an automatic discouragement to the operator to add a lot of unnecessary, or expensive features to the ship, and yet he is not in the position of having to pay in total for them.

I would suspect that with this provision in the bill to replace the *America*, you are getting so far away from the $47 million that it would very likely be unacceptable to the United States Lines. I am afraid that that is the case.

I think that that probably would not be true if that were a proportionate share, or at least it would be less likely to be true.

Mr. FISHER. It is customary under the 1936 act to make that proportionate.

Mr. MAILLIARD. Would I not be correct in saying that in the case of the APL vessel, if the Navy should decide, I do not think it would but if it should decide, that that vessel was acceptable as they want it, then the total cost to the Government would be 45 percent of the cost and there might be no national-defense features?

Mr. FISHER. I am not sure that I follow you on that one.

Mr. MAILLIARD. I think that would be true.

Mr. Allen said that the Government would pay approximately 55 percent of the total cost. Well, that is the replacement for the *America* where we know the figures.

Mr. FISHER. Yes, sir.

Mr. MAILLIARD. We do not know what defense features might be put into the APL vessel. Assuming that there were none, then under this figure the total cost to the Government would be the 55 percent, but in the case of the replacement to the *America*, it is going to be substantially more than 55 percent.

Mr. FISHER. Yes. Of course it is going to cost a lot more, too.

Mr. MAILLIARD. That increase above 55 percent is defense features entirely?

Mr. STAPLES. That is true.

Mr. FISHER. Whether it is defense features or not, the Government is going to have to pay it.

Mr. MAILLIARD. For what they demand, but in both instances the 55 percent cost to the Government will be on the commercial equivalent.

Mr. FISHER. That is right; yes, sir.

Mr. ALLEN. Will you yield?

Mr. MAILLIARD. Yes.

Mr. ALLEN. I was trying to justify in my own mind this 45 percent figure in each case.

I do like uniformity in the approach, or seeming uniformity, but it seems to me here that quite frankly, the United States Lines offers us a ship with the defense features built into a very considerable extent, while the American President Lines very frankly offer a commercial vessel without defense features so that, if we go to a uniform percentage, I was trying to consider how do we justify taking the two ships

on the uniform percentage when one comes with the defense features built into a very considerable percent, while the other does not.

Mr. STAPLES. I think it would be well for us to understand how we arrive at all these percentages, Mr. Allen.

First of all, we start off with the proposition that the United States Lines stated they could pay $47 million for a ship which would be the equivalent of the steamship *United States*.

Now, bids were put out on that and I believe the Maritime Administration estimated that the domestic cost of a commercial ship pursuant to that bid would be about $105 million, so that from that point we go on then to say that $47 million represents 45 percent of $105 million, and therefore, effectively, the Government is paying 55 percent construction subsidy.

That is without any national defense features which would add possibly another $25 million or $30 million to it.

Now, the American President Lines has applied to the committee for equality of treatment, and the bill as has been prepared here is predicated upon those percentages which are the effect of the $47 million offered, and the $105 million estimated, and it is on that basis that we have inserted in here: "shall be 45 percent", so that that puts it on the same basis as what the present estimates are for the replacement for the America.

Mr. ALLEN. I think that clears it up.

The CHAIRMAN. Mr. Mailliard.

Mr. MAILLIARD. That is all, Mr. Chairman.

The CHAIRMAN. It has been thought that the final bill might be in two sections, the first section dealing with one ship and the second section dealing with the other, because there are certain peculiarties in the one instance that do not occur in the other.

We are not trying to write a uniform bill that would be used perpetually. We are taking care of a situation here where the testimony before the committee has shown it to be necessary for the national defense to have these two ships.

Mr. Miller.

Mr. MILLER. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Zelenko.

Mr. ZELENKO. Mr. Chairman, in line with your statement just now, I believe that the Comptroller has evidenced your sentiments on page 13 of his brochure here, the one entitled No. 3. I was reading the conclusion of it and it states that:

> We recognize that the proposed bill—

that is the one dealing with the United States Lines counterpart—

> is the result of special circumstances—the background of which indicates that the cost of replacing the steamship *America* under existing provisions of the Merchant Marine Act of 1936, as amended, with a vessel equivalent to the steamship *United States* is not commercially feasible. On the other hand, its enactment may nevertheless serve as a precedent for similar proposals for the construction of vessels and their sales at fixed prices in lieu of estimated foreign cost, or for other deviations from basic provisions of the act, based on contentions of equally justifiable special circumstances.

Here is the important part:

> We also recognize that the question of whether special legislation of this type, granting Government aid in excess of that presently authorized, is necessary to the national interest is strictly a matter of policy for determination by the Congress, on which we express no opinion.

In other words, the Comptroller recognizes the special circumstances applying to a counterpart of the vessel *United States*.

Mr. CAMPBELL. That is correct.

Mr. ZELENKO. If it is one bill, it would necessarily have to be, I think, in two sections. You cannot very well group both of these vessels into one category.

If I may, to eliminate some of the confusion in my mind with all these figures involved, your office, Mr. Comptroller, has first of all gone over the figures submitted and the projections submitted by both of these companies, and I believe you have told us that you find them substantially accurate. In other words, you have looked the figures over as they have submitted them?

Mr. CAMPBELL. That is right.

Mr. ZELENKO. You find them accurate and that has been one part of your task here.

Secondly, you of course do not express an opinion as to whether this legislation should be enacted or not.

Mr. CAMPBELL. We did not.

Mr. ZELENKO. That is my understanding.

Mr. CAMPBELL. That is correct.

Mr. ZELENKO. I want to get this across.

Thirdly, you have on the figure basis alone and in the interests of the Government submitted certain changes or variations from the original proposals here on the figures.

Your changes or variations, you feel, are in the interests of the Government for protection of the Government?

Mr. CAMPBELL. With respect to earnings figures, yes.

Mr. ZELENKO. Some of the changes which you have advocated here apply merely from an accounting standpoint, not on the feasibility of the legislation?

Mr. CAMPBELL. Yes, sir.

Mr. ZELENKO. Then that leads me to the next question.

The figures that we have had submitted from the companies have been backed up by statements from both of the companies that they could live with those figures and they would be feasible from their viewpoint. Now, has your office consulted or had conferences with the companies on your proposed variations to determine whether the companies could live with your figures?

Mr. STAPLES. By variations, Mr. Zelenko, do you mean the provisions in the revised bill that we have presented this morning?

Mr. ZELENKO. I am not classing that as a technical term. I am using it as a layman.

Mr. STAPLES. The only figures in which we found adjustment was in connection with the United States Lines Co., and we have discussed it generally with them, and they agree with the adjustments that we have found.

Mr. ZELENKO. Of course, I am always one who figures that I perhaps have to explain to somebody in my district or to somebody not familiar with accounting procedures. I do not want to be in a position, let's say, of a member of a committee who would say, "Let's take your figures," and then find that the people who are going to build it cannot get along with it. That is why I ask you if, as a result of your conferences, informal and formal, that you have had with them,

they take your adjustments and say that with your adjustments they can get along.

Mr. STAPLES. They have not indicated that they can or cannot, but they have accepted our adjustments in informal conferences, and I do not believe the net effect of them will cause them discomfort, because the net effect is about $44,000 a year.

Mr. ZELENKO. Suppose I go along with you, as I naturally would, and these people come up and say, "Our original proposal was something we could live with and we cannot now go ahead," but you feel that the adjustment is of a very minor nature.

Mr. STAPLES. That is right.

Mr. ZELENKO. So that it would then be up to them to say whether they can get along with that. It is not a substantial adjustment such as would discourage them from proceeding?

Mr. STAPLES. Not at all.

Mr. ZELENKO. I do not propose to ask further questions because I do not have the capability or background of going into these millions of dollars of figures, so that I suggest you go along with your distinguished Comptroller General.

The CHAIRMAN. Pardon me, Mr. Macdonald; I passed you.

Mr. MACDONALD. I have no questions.

Mr. Pelly.

Mr. PELLY. I have no questions.

The CHAIRMAN. Mr. Cederberg.

Mr. CEDERBERG. I have no questions.

The CHAIRMAN. Mr. Gross.

Mr. GROSS. I heard the term "domestic and foreign costs." What is meant by domestic and foreign costs in connection with the construction of a vessel such the *United States?*

Mr. CAMPBELL. What is the difference between the two?

Mr. GROSS. Let me put it this way: Have foreign shipyards bid on the construction of this vessel?

Mr. CAMPBELL. They have not.

Mr. STAPLES. No, foreign costs come about, Mr. Gross, by virtue of estimates and accumulated data gathered by the Maritime Administration, all of which taken collectively adds up to an estimate of what it would cost to build this ship in a representative foreign yard. That is all it is.

Mr. GROSS. But for purposes of consideration of this bill, there is no relation between actually what it would cost to build this ship in a foreign yard?

Mr. STAPLES. No, if what you mean is an actual bid by a foreign yard.

Mr. GROSS. That is a misnomer. It does not matter what it would cost to build this ship in a foreign yard. It has no relationship to it; is that correct?

Mr. STAPLES. In view of the fact that a fixed price has been stipulated in the bill, the whole question of differential between domestic and foreign cost does become somewhat academic; but under the provisions of the Merchant Marine Act, and under the philosophy of the Merchant Marine Act, the purpose of the law is to place the operator on an equal footing, investmentwise, with his foreign competitor and, therefore, they say that the difference between what it

would cost you to build this ship in a foreign yard, based upon all the best estimates that anybody can get, and what it would cost you in a domestic yard, is what is known as construction subsidy, which the Government will pay.

That will place you on an equal footing with your foreign competitor.

Mr. GROSS. Do you know whether any foreign country has enough counterpart funds to build this ship?

There is one other question I would like to ask. The committee print H. R. 9432 states:

> To authorize the construction and sale by the Federal Maritime Board of a superliner passenger vessel for operation in the Pacific Ocean.

Your proposed bill is:

> To authorize the construction and sale by the Federal Maritime Board of a passenger vessel for operation by American President Lines, Ltd.

Mr. CAMPBELL. We suggested that that limitation might not have been intended, and that it might come out.

Mr. GROSS. Do you think it is a limitation that ought not to be in the bill? In other words, the vessel ought to be able to be operated in any ocean; is that correct?

Mr. CAMPBELL. That was our thought.

Mr. GROSS. Thank you, sir.

The CHAIRMAN. Mr. Dellay.

Mr. DELLAY. I have no questions.

The CHAIRMAN. Mr. Young.

Mr. YOUNG. I have no questions, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. McIntosh..

Mr. MCINTOSH. I have no questions.

The CHAIRMAN. Mr. Glenn.

Mr. GLENN. I have no questions.

The CHAIRMAN. Thank you, Mr. Campbell. I think you have fulfilled the requests of the committee as much as possible. You were called on not because we doubted the responsibility of the American President Lines or the United States Lines, but we wanted you to look the figures over so that we could show that, if we want this ship and must have this ship, we could not expect the private operator to invest more money than he suggests it is possible for him to invest to get some return on his investment.

I think it has been clearly shown. You have substantiated just what they have said. Thank you very much.

Mr. CAMPBELL. Thank you, Mr. Chairman.

The CHAIRMAN. We will have the United States Lines, General Franklin.

STATEMENT OF GEN. JOHN M. FRANKLIN, UNITED STATES LINES CO. (RESUMED); ACCOMPANIED BY D. D. GEARY, OF KIRLIN, CAMPBELL & KEATING, COUNSEL

General FRANKLIN. I do not know exactly where to start, Mr. Chairman. I have no prepared statement. Would you like me to just comment on the testimony or comment on the bill?

The CHAIRMAN. On what has been said and the changes in the bill.

Do the new proposals drastically change the situation that you presented to the committee? If so, just how do they do so?

General FRANKLIN. Well, sir, the first time that we saw the draft of this new bill was this morning, and we have been over it carefully since.

The disturbing provision, as we read it, is in section 2:

Provided, however, That such price shall be increased to reflect the full amount of any additional costs of construction, outfitting, and equipping (other than national defense features) arising out of any change in the bid specifications or out of additional items not included in the bid specifications.

Now, as we have testified previously, the United States Lines can afford to pay, top, in our opinion, $47 million for a sister ship to the steamship *United States*, providing that the trade-in value of the *America* or the foreign sales value of the *America* were $10 million, and that we can borrow the 75 percent of the $47 million at 3½ percent, or whatever price the Government is paying for long-term money.

Now, we have presented all our figures. The figures have been gone over by the Comptroller General and his people. As far as we can figure out now from the report, there are very minor differences and we are perfectly prepared to accept those minor differences.

The thing that disturbs us in the bill, on which the language is not aboslutely clear, is that it may be construed that the additional items, and we just jotted them down here, might run up to $20 million and, if we got a 45 percent subsidy on that, then the price of the ship will go up $8 million or $9 million over our $47 million, and make it absolutely impossible.

Now, that bluntly and briefly is our comment on this bill. We listened carefully to what Mr. Fisher said, and I do not know, it's a question of the interpretation of this bill.

We have been discussing here the purchase of a steamship *United States* for $47 million. We have also been discussing here the total cost of which ship would be about $129 million. That includes the stabilizers, it includes hotel equipment, includes supervision during construction, et cetera, and it includes escalation. There is no use in discussing $109 million, which is the base price for the ship, because that is just the shell of the ship without equipment.

The CHAIRMAN. You have taken into consideration in your $47 million any increase that might become necessary on the existing bid, have you?

General FRANKLIN. Well, sir, our position is that $47 million is the top price that the United States Lines can pay for the ship.

The CHAIRMAN. All these provisions that have been gone over this morning were in your proposal, were they not?

General FRANKLIN. We considered all of them when we said we could pay $47 million.

The CHAIRMAN. Did you consider them as in your proposal based on the $47 million?

General FRANKLIN. I say "yes" to that.

The CHAIRMAN. Enlarge on this just a little. What is going to be the difference?

General FRANKLIN. Well, sir, we are now attempting to comment on this bill.

The CHAIRMAN. Yes, sir.

General FRANKLIN. I do not see how we can proceed on the basis of this bill, as I understood what Mr. Fisher says, if the language means what I understood Mr. Fisher said it meant; namely, that in addition to $47 million, the United States Lines would be expected to pay for a great number of items on their share of a great number of items, say, fixing a subsidy at 45 percent, such as escalation, hotel equipment, et cetera, stabilizers, et cetera.

The CHAIRMAN. That was taken into your bid, was it not?

General FRANKLIN. Well, our position is that $47 million is the top figure that we can pay.

The CHAIRMAN. I mean when you got your bid and based the $47 million figure on the bid, were not these outside factors considered at that time?

General FRANKLIN. Well, sir, we based our proposal of $47 million on a ship to be a sister ship to the steamship *United States*, for which we paid $35 million, and providing we could get $10 million for the *America*.

Now, that is the way we got to our $47 million.

Also, we examined it from this point of view: If we got the same percentage of national defense features in the case of the ship under discussion as we got in the case of the steamship *United States*, that sum would be about $40 million. If you took $40 million over the total price of the ship under discussion, $128 million, took the $40 million off the $128 million, and then took a 45 percent subsidy, you would get very close to $47 million.

The CHAIRMAN. Well, there is nothing doubtful about the bid that you have now, is there?

General FRANKLIN. No; there is nothing questionable about the New York Ship bid.

The CHAIRMAN. You specified in the invitation for bid all these extras as contemplated additional cost; did you not?

General FRANKLIN. Well, yes.

The CHAIRMAN. Do you have any idea that the ship is going to cost any more than the bid price?

General FRANKLIN. The price of the bid is $109 million. Now, the hotel equipment is estimated. We have no bid on the hotel equipment, but we have a pretty firm figure because of our experience with the steamship *United States*.

Now, we know because of our experience with the steamship *United States* that this ship with a base bid of $109 million will cost, ready to go to sea with stabilizers, about $128 million.

The CHAIRMAN. Well, the stabilizers are in the bid that you have existing?

General FRANKLIN. The stabilizers are in excess of the $109 million.

The CHAIRMAN. They are in excess of the price on which you based your $47 million?

General FRANKLIN. No, sir; but they are in excess of the $109 million which is the base price that New York Ship put in for a sister ship to the steamship *United States*. They said that if we put in stabilizers, they would cost about $2½ million more, $2,159,000.

What we have been discussing with you gentlemen right from the inception is that we were prepared to purchase the ship for $47 million. The ship we were discussing was the ship that we knew was going to cost approximately $128 million.

Now, we cannot go along on a bill that leaves the situation open so that we may be charged for hotel equipment, escalation, stabilizers, et cetera, because our top price is $47 million.

Now, in my opinion, this bill can be changed. Mr. Drewry and Mr. Geary can change this bill with just a few words, and it will be acceptable to us.

The CHAIRMAN. What are the few words?

General FRANKLIN. I would rather let Mr. Geary discuss that with Mr. Drewry.

Providing, however, That such price shall be increased to reflect the full amount of any additional cost of construction, outfitting, equipment—

If we say the price shall include those items, it is all right.

Mr. DREWRY. General, the basic purpose of this proviso, as I understood it in the discussions had with the General Accounting Office people, lies in the word "additional" as set forth in the next to last line from the bottom of the page. That being as you mentioned, you have estimated hotel equipment at $2 million, was it, or $2½ million, and quite conceivably, without some such proviso you might recommend, and the recommendations be adopted, that would call for $5 million or $10 million worth of hotel equipment, or gold plates instead of china or other changes which you might want just because you yourself wanted them, which would be beyond the control of the Congress at least. And the thought involved here, as I understand it, was that you would get the ship fully outfitted and equipped, and certainly it was my understanding that your $47 million included the bid and stabilizers and hotel equipment.

General FRANKLIN. That is right.

Mr. DREWRY. And that this proviso would be to protect the Government against any changes which might be made which were just out of whim.

Mr. FRANKLIN. If that is what the bill means, Mr. Drewry, we will go for it.

I make this suggestion, if you want, to write in "same general standards as steamship *United States* so far as hotel equipment."

Mr. ZELENKO. Will counsel yield for a moment, please?

Mr. DREWRY. I yield.

Mr. ZELENKO. I want to see whether I understand the problem. I disagree with the interpretation of the wording here. I think this wording goes further than hotel equipment because it says that the price shall be increased to reflect the full additional cost of construction, outfitting, and equipment.

Now, construction surely does not mean plates. It does not mean linens.

Mr. DREWRY. That is quite correct.

Mr. ZELENKO. I see the fears of the proponents of the company here. They say, "Well, that may mean actual construction features in the ship."

Now, what I want to know is this: The company has submitted an offer of $47 million. You cannot go a penny above that?

General FRANKLIN. That is right.

Mr. ZELENKO. According to what I read in the bill here, I want to place the question: It is that you are afraid under the clauses written now, and I think it is clearly written, that it can go to hotel equip-

ment, which might be outfitting, but the words "equipping" and "construction" might mean anything on the ship far above that. That might go to $10 million or $15 million. That is where we are.

These folks cannot pay more than $47 million, but they do not want to be burdened with the proviso. They might be obligated under this bill to pay $87 million or $100 million, which they say they cannot do. Their price is $47 million.

I think that is the problem right now.

General FRANKLIN. That is very well put.

Mr. ZELENKO. I think the way it reads now, it is not limited to hotel equipment.

Mr. DREWRY. I cannot agree with you more. I was using that as an example. However, there could be changes in construction or outfitting or equipping that they themselves could ask for above and beyond.

Mr. ZELENKO. Regardless of that, I think it was very fair on the company's part at least to let us know this now.

I do not say that we will go along with the bill as it is. That is the reason I asked the Comptroller General whether these folks said they could live with any adjustments up to now, but this thing I think is very significant and direct language. This obligates the company or anybody under this bill to pay over $47 million, regardless of what it is, if it has anything to do with construction or equipping. They say they cannot do it.

The CHAIRMAN. They have substantiated that all they can pay is $47 million.

Mr. ZELENKO. The objection is to these words, "construction, outfitting, and equipping," which can mean any amount of money at all. That is where it stands now.

General FRANKLIN. Mr. Zelenko, I think you put the thing much better than I could. I was disturbed at Mr. Fisher's interpretation of this bill this morning. I quite agree with you. I gathered from him that we might be expected to pay $10 million more for this ship under this language.

Mr. ZELENKO. The word "construction" to me can mean anything.

The CHAIRMAN. That is the prime difference and objection that you have. Are there any other features?

General FRANKLIN. No, sir.

Let me answer it this way, if I may, sir: We note, of course, the 75 percent recapture. We will go along with that.

The CHAIRMAN. You will be happy with that.

Mr. TOLLEFSON. There are two points in your bill that I am not sure that I understand your acceptance of by your statement. One was on page 2 of the new proposed bill by the GAO, the second page, the first new sentence:

> Terms and conditions of payment of the purchase price, including but not limited to the payment of interest during construction of the new vessel. * * *

Now, as I understood it from the GAO, interest paid during construction might reduce your return by from 1 percent to 1½ percent.

General FRANKLIN. Mr. Tollefson, that is exactly right. Of course, we listened to that with great interest, and we realize that that might well reduce our return. It is bound to reduce our return, but we do not want to be captious and that is a provision of the Merchant Marine Act and we will go along with it.

Mr. TOLLEFSON. All right.

Then, in section 3, there is a provision for allowance of credit for trade-in of the steamship *America* reduced by any use charges. Have you taken that into consideration?

The CHAIRMAN. You contemplated that in your major testimony?

General FRANKLIN. Yes, sir.

Mr. TOLLEFSON. I wanted to have that clear in my own mind.

The CHAIRMAN. I remember that you agreed to that in your major testimony.

General FRANKLIN. I think that is a good point which Mr. Tollefson is making. You must remember that we have said right along in our testimony that we were counting on getting $10 million for the *America*. As I remember the testimony of the Federal Maritime Board, they talked between $8 million and $9 million. That is three different figures. Everything we have said has been based on getting $10 million for the *America*.

Mr. TOLLEFSON. That is why I raised this question as to whether or not this language would be acceptable to you.

Mr. ROBESON. Will the gentleman yield to me?

Mr. TOLLEFSON. Yes.

Mr. ROBESON. I understood the witnesses from General Accounting to say flatly that you would pay $47 million plus.

General FRANKLIN. Mr. Robeson, I think that is right. I do not say that they said that we would pay $47 million plus, but their testimony made it very clear that we were expected to pay $47 million plus.

The CHAIRMAN. That is with this first language we discussed.

Mr. ROBESON. That is what I understood them to say.

General FRANKLIN. That is what I objected to in the testimony.

The CHAIRMAN. That was in the language. You brought out that the plus would be present.

Mr. ZELENKO. I wanted to pursue one thing, Mr. Chairman.

The CHAIRMAN. Yes.

Mr. ZELENKO. I would assume that whatever you folks would be obligated to pay, or whatever you folks would contract for, you would not want your company to spend more money than necessary in any kind of an enterprise so that, coming back to this language, I just want to get another viewpoint on it. You yourselves would not change the construction, so let's say under this bill that to such extent that you would have to pay $47 million. Your idea is to keep it $47 million, or under if possible?

General FRANKLIN. That is right.

Mr. ZELENKO. Is your fear here that let's say a Government agency or the Maritime Administration or someone else might come in and say, "You have to construct in another way and therefore it is going to cost you more."

Do you see what I am driving at?

General FRANKLIN. Absolutely. Of course, you are perfectly right. We cannot leave ourselves open for that. I do not think they would do it, but that is one thing.

Mr. ZELENKO. Is it your fear that somebody might come to you and say, "Outside of these defense features, you have to construct or outfit in a certain way, and it is going to cost $6 million or $8 million"?

You yourselves would not do it, but in your $47 million, regardless of this cost, do you figure when you estimate the ship at $128 million that it might cost more than $128 million even if you were trying to save?

General FRANKLIN. It might; yes, sir.

Mr. ZELENKO. I understand.

Thank you very much.

Mr. PELLY. Mr. Chairman.

The CHAIRMAN. Mr. Pelly.

Mr. PELLY. Have you considered the possibility, General Franklin, that you might, after this new ship began to operate, get a bill from the Government for operating it over the normal commercial speed?

You are not being assessed that now on the United States?

General FRANKLIN. Of course, it is perfectly clear that the Government could not assess us for use of speed over 28½ knots unless we had an agreement with them that would allow them to assess us. Personally, I think it would be a mistake. I am openminded.

One thing goes through my head: The passengers would all be saying, "They are holding this ship and not letting her go because they have to pay more money if they run her faster." I think that would be bad.

Mr. ZELENKO. I thought the thing ought to be spelled out in the record, because it came up once before.

General FRANKLIN. There was one thing that I think was asked by one of you gentlemen. I think it is well to get this cleared up.

You asked this question of the General Accounting Office, gentlemen, as to what a reduction of 15 percent in revenue of passengers carried would be. Now in 1957, the total revenue of the *United States* was $20,260,000. If you ran 10 percent less passengers, you would lose about $2 million. All you would save in operating expenses would be the food those passengers ate, and you would have some small reduction in your stewards department.

You could not decrease your deck and engine crew at all. You would have some small deduction in the stewards department. I would not think it would amount to more than $200,000, so that right there a 10 percent reduction would wipe out all the profit, absolutely all.

That is another reason why we cannot possibly pay more than $47 million for the ship.

Mr. ZELENKO. Mr. Chairman, if I may, it seems to me right at this point that we are in a very serious position because it seems like an impasse in a way.

The company cannot pay more than $47 million. The General Accounting Office or the Comptroller is afraid that the Government may be paying more than the difference between $47 million and $128 million.

Might I suggest that when you have conferences on this that perhaps you might arrive at some position where you would say your $47 million is based on $128, and perhaps, if there were anything additional, something can come out in a way where you people would not be obligated for more than a fraction of it.

This $47 million is based on $128 million. The big fear is the difference over the $128 million. I think that is the area that you have to discuss, or otherwise we are no place right now.

The CHAIRMAN. I think we have made some progress.

Mr. GEARY. I would say too, Mr. Drewry, to follow out what he said on the top of page 2, what General Franklin I think is worried about is that, although it says "additional items," it speaks of items not included in the bid specifications.

Now the bid specifications, the only ones we know anything about at the moment, are the bare ship, and in that $128 million, added on to it $109 million is $31½ million for the hotel equipment. That is kitchen utensils, furniture, and that kind of thing.

If you take it merely on the basis that these items are in no specifications at the present time, and are only estimated on the basis of the *United States*, if we are to have the cost of items not in the bid specifications added, you immediately raise your $47 million to $50½ million, or at least put a pro rata on it.

The next thing I might add is that your changes that you are charging with us are anybody's changes, and not confined to changes that we initiate.

I saw the contract that went out to New York Ship. I have not had an opportunity to verify it this morning, but I think we are not able under that contract to make any changes in the ship without Maritime Administration's approval.

Under the act, primarily they are the contractor for the ship and they sell it to us, so that we would have to go to them and convince them that there was some special reason. Equipping it like the *United States* and building it like the *United States*, I think likely the changes would be quite small.

Mr. DREWRY. If you went to them to demonstrate that there was a special reason for a change, would you feel that you should not have any part of the cost of those changes which you yourself initiated?

Mr. GEARY. I think if we initiate the change, subject to the Comptroller General's and Maritime's approval, I think we ought to take our share. I assume Maritime would not approve unless they thought it would make a better ship.

Mr. MAILLIARD. Mr. Chairman.

Is it your opinion that this proposed bill with the changes that were suggested would right now require you to pay $19 million over the $47 million?

Mr. GEARY. I did not follow you.

Mr. MAILLIARD. The way this bill is written now, that your price shall be increased for the full amount of anything not included in the bid specifications, right now you have the difference between $109 million and $128 million. Every dollar is on your back the way this provision reads.

Mr. GEARY. We did not think that until we heard the Comptroller General, but we were shocked at the situation of this proviso.

Mr. MAILLIARD. I do not think that was intended, but as I read the language, I think that is what it does.

General FRANKLIN. That is exactly right, but the thing that disturbs me is that I gathered that that was Mr. Fisher's interpretation, which was very serious.

The CHAIRMAN. I asked Mr. Fisher whether that would be prorated on the basis of foreign and domestic cost, and he said "Yes."

General FRANKLIN. I think what he meant then, not quite as bad

as what Mr. Mailliard had in mind, was where we would be expected to buy the whole thing, was that we would pay 42 percent, 45 percent, 47 percent, whatever was the construction differential subsidy, which would make the thing impossible.

Mr. MAILLIARD. But if this were to be changed in some way so that the intent was to have you pay your proportionate share of items that are in addition to those we have been discussing, which add up to the $128 million, that would be acceptable to you, would it not?

General FRANKLIN. Now, I will think of that a minute. Let's not go too fast.

What I say in answer to that is that we have been talking about $128 million with the stabilizers in here, and all outfitted, and with inspection costs and escalation. The whole bag of tricks comes to $128 million, and then you get a ship that is a real sister ship to the *United States* with the same standard equipment, et cetera. That is the ship that we are all talking about.

I cannot think of anything over and above that.

Now, if somebody came along, if the Navy came along or the Federal Maritime Board, who are always very reasonable, and I do not think they would do it, and said, "We want you to put something else on the ship and we want you to pay for it," that would be unreasonable, and I do not think it is possible.

Mr. MAILLIARD. Of course, if the Navy did it, that would be a defense feature and the Government would pay for that under existing law; but I was thinking if at some time during the 3 years something would come along that you and the Maritime Administration would think desirable to put into the ship, I assume that without consent of both of you this item would not be put in, but I think the GAO is going to object very strenuously to an unlimited liability for the Government.

General FRANKLIN. I agree with that. I see what you mean, and I think it is right. In other words, if Mr. Morse and I sat down and said it would be a good thing to increase the restaurant capacity, taking that as an example, and it is going to cost so much, and we both agreed it was a good thing, then I would say the United States Lines ought to take its share of that. It ought to be worked out on a construction differential subsidy basis.

Mr. MAILLIARD. Because clearly we cannot report out a bill in which either your liability or the Government's liability is not limited in some way.

General FRANKLIN. That is right. That is all right. I will agree to that.

The CHAIRMAN. We will hear next Mr. Morse.

STATEMENT OF CLARENCE G. MORSE, MARITIME ADMINISTRATOR—Resumed

Mr. MORSE. Mr. Bonner, I wonder if it would be feasible to defer my comments until tomorrow morning. There have been a lot of general discussions here. The record is a little bit unclear. There are a number of items we would like to comment on, and whether I could do it extemporaneously, I do not know.

The CHAIRMAN. Then we will hear Mr. Poole of the American President Lines.

I take it that the American President Lines has no controversy here at all, have you?

STATEMENTS OF NOAH M. BRINSON, VICE PRESIDENT, AND ARTHUR B. POOLE, VICE PRESIDENT, AMERICAN PRESIDENT LINES—Resumed

Mr. BRINSON. No, sir. We have no controversy, Mr. Chairman.

The CHAIRMAN. I mean difference in opinion?

Mr. BRINSON. We are very much impressed with the bill of the General Accounting Office.

The CHAIRMAN. They found you operated accurately. They did not find any figures much out of line.

Mr. BRINSON. We interpret it that we have a problem with speed. We interpret this bill to mean 45 percent of a 26-knot ship, which would be the commercial ship fully equipped, and that anything in speed above the 26 knots would be considered national defense feature.

Our purpose is to build the fastest ship in the Pacific commensurate with the military needs and at the same time make it economically feasible to operate as a commercial ship.

We would like to have it clear, if we can establish it, that a commercial ship in the Pacific is the 26-knot ship that we are speaking of here, 45 percent, and that we will have a considerable latitude in working with the Department of Defense and Maritime Administration in increasing that speed, but with the understanding that we can operate that ship at such speed as we later find necessary to meet the commercial requirements.

The CHAIRMAN. Let us take your bill and see.

Mr. BRINSON. We take section 2:

45 per centum of the domestic cost of construction of the commercial vessel.

We think it might be well worth while to spell out the commercial vessel of 26 knots, if Mr. Morse agrees to that, and I think we are in agreement on that.

Then we go to—

Provided, however, That such price shall be increased to reflect the full amount of any additional cost of construction, outfitting, and equipping.

We understand that it is intended that the 45 percent will be the fully equipped vessel. We are perfectly willing and think it nothing but right that we pay our pro rata share of the cost of any changes.

Of course, escalation will not come into play at all as we see it. In other words, as we understand, it would be the domestic cost of a 26-knot ship in the Pacific and with American President Lines to pay its pro rata share based on a construction differential subsidy of changes, and we interpret that to mean 45 percent. That is not exactly clear on that.

In other words, the only costs that we would be incurring in addition to the 45 percent of construction cost and equipping of the 26-knot ship would be the cost of the changes. We would be concerned for good reason that if we established the 26-knot ship and later operated

in excess of that, we would like to avoid having to work under what we call a speed clause whereby the Government would recover from us the cost of operating at that increased speed.

In other words, we would not be in a position where you give it to us on the one hand and we pay for it on another.

The CHAIRMAN. That is worked out ordinarily with the Maritime Board.

Mr. BRINSON. Only under a speed clause, sir, which we would like to avoid because, as we interpret the General Accounting Office report, earnings as determined by them would not include that extra cost for the extra speed.

The CHAIRMAN. Let me ask you this, sir:

Has the testimony not shown that the Maritime Administration has dealt fairly with the United States Lines in respect to that subject?

Mr. BRINSON. Well, on the United States Line, of course; yes, sir.

The CHAIRMAN. So that this bill sets out that you will be treated just as they are treated.

Mr. BRINSON. Yes, sir.

The CHAIRMAN. That takes care of your problem in that respect, does it not?

Mr. BRINSON. I would think so, if it would so spell it out; yes, sir.

The CHAIRMAN. I think that as the bill is written in your case, that you are well taken care of unless you can convince me otherwise.

Mr. TOLLEFSON. With the exception of that one clause.

The CHAIRMAN. Do you have a firm contract, a bid contract?

Mr. BRINSON. No, we have not, Mr. Chairman.

The CHAIRMAN. Then this clause does not affect you so much because the things that go in the contract are worked out between you and the Maritime Administration previously, are they not?

We can put the same thing in yours that they put in the United States Lines bid proposal.

Go ahead, Mr. Mailliard.

Mr. MAILLIARD. Mr. Chairman, I think the trouble arises in that this language is not too clear as to what it intends.

For example, certain items such as hotel items will not be included in a bid so that it has to be made a little clearer that if you are working on a 45-percent basis, this applies across the board. That is a little uncertain in this language as I read it.

Do you agree? The intent is a little vague.

Mr. BRINSON. You are speaking of section 2?

Mr. MAILLIARD. I am speaking of that proviso that—

> Such price shall be increased to reflect the full amount of any additional costs of construction, outfitting, and equipping—

as to whether you have to pay that beyond the shipyard contract costs, and there are normally such additional costs.

The CHAIRMAN. Let us say that they asked for the same treatment that we give the United States Lines, and we are in this controversy with the United States Lines, and whatever we work out for the United States Lines, of course would be accorded to this firm, so that that would take care of it.

Mr. BRINSON. Yes, sir; definitely, Mr. Chairman.

The CHAIRMAN. That is all you have to worry about.

Mr. POOLE. Mr. Chairman, may I comment on several points involved in our discussions?

The CHAIRMAN. Yes, sir.

Mr. POOLE. I will be brief and that can be followed by questions.

The first is the interest on construction costs. I think that has already been agreed to, as I understand it. I think it is not unreasonable and I would say that American President Lines will accept the same arrangement.

A comment that was made by the Comptroller General I think on further digging in would be found not quite right. He said that there was a substantially lower occupancy estimate in our case.

I think that, if you would get into the questions of the total number of berths and the salable berths and come down to the percentage that way, that ours would still be a little lower for reasons applicable to the Pacific Ocean, but that the difference would be less than he indicated.

In other words, I think that we are not far, not very far from United States Lines for comparability when you come to salable berths, and that is what you have to talk about if you have a lot of upper berths that are only salable in certain instances.

Then, to go on with the Comptroller General's computations, it has been brought out already that his calculations did not include interest on cost of construction although the interest costs in his statement is part of the cost of the ship, and is therefore capitalized in the usual manner in accounting.

If you would take the $1,168,000, which I estimate as the interest that would be payable on the price that he uses, that is 45 percent, and if you add a smaller amount of $200,000—that is, the 45 percent produces $200,000 more than $34 million—and if you allow for both of them, you will arrive at a return in our case of 6.86 percent instead of 8.01 percent.

I thought that might be worth looking at.

The CHAIRMAN. Well, the American President Lines agreed to that.

Mr. POOLE. Agreed to what, the 8.01?

The CHAIRMAN. They agreed to the interest during construction?

Mr. POOLE. Yes. I am only saying that the rate of return as a fact is 6.86 percent when you allow for that instead of the 8.01 which the Comptroller General was outspoken enough to say has been reduced. The rate is 6.86, using the same assumptions.

There is one difference that is a little hard to meet if it is intended that the treatment of the two companies would be substantially the same thing. There is one difference that has to be attended to in some manner, and perhaps there is more than one way of taking care of it.

If a price of $47 million is arrived at for one ship by taking 45 percent of the estimated cost of the commercial version of 30.7 knots and the same percent then be spelled out as 45 percent in our case, in one case the escalation has been estimated and allowed for and, in the other case, the escalation has been allowed for also, but that leaves us with a gamble on the future.

I do not know what amount of escalation Mr. Hoffman has put into his $76 million estimate of our ship but, if that is to be closed off for one, it ought to be closed off for the other.

In other words, our cost should not be added to by escalation above the amount now estimated. Have I made that clear, Mr. Chairman?

We are, in that bill, left with a gamble on escalation.

Mr. TOLLEFSON. May I ask a question.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. Do I understand you to say that because of the 45 percent figure the escalation problem is left open, whereas the fixed-price takes care of it in the other case?

Mr. POOLE. Yes.

I am sure that in both estimates, both of them were made by the Maritime Administration, the $105 million and the $176 million, I am sure they allowed a sensible amount for escalation because increase in costs has been a very steady thing, and I presume that they are on a very comparable basis.

The difference is just what you say. In one case it is closed off and in our case it would be left open.

The CHAIRMAN. You came in with the proposal of escalation?

Mr. POOLE. Yes; we have allowed for it.

The CHAIRMAN. So that you are in the same situation?

Mr. POOLE. No, sir; not if a fixed price is arrived at in one case and a percentage in the other.

As Mr. Tollefson points out, that closes off escalation in one case and leaves it open in the other.

The CHAIRMAN. As I understood the General Accounting Office, they said that, based on your testimony, they arrived at 45 percent for you.

Mr. POOLE. Well, they arrived at it, as I understand it, by saying that $47 million is 45 percent.

The CHAIRMAN. We brought the General Accounting Office in, not because we doubted the testimony of you gentlemen at all, but to confirm the accuracy of it, so that we could present it to the House. They arrived at that 45 percent on your testimony.

Mr. POOLE. My understanding of it is that $47 million is 45 percent of $105 million and, if 45 percent is good for one, it is good for the other, and that is how they arrived at 45 percent for us. Isn't that what he testified to this morning?

Mr. TOLLEFSON. That is roughly, as I understood it. Further on that point if I may, Mr. Chairman.

The CHAIRMAN. Yes.

Mr. TOLLEFSON. What was the estimated cost of the Pacific liner?

Mr. POOLE. $76 million.

Mr. TOLLEFSON. And the estimated cost of the United States was $109 million or $105 million? I have heard both figures used.

Mr. POOLE. The estimated cost of 30-knot ship as presented several times in this hearing is $105 million.

Mr. TOLLEFSON. Whichever figure you see, either $105 million or $109 million, the United States would cost the United States Lines $47 million. Yours would be 45 percent of the $76 million.

Now, then, if the cost escalated so that your $76 million figure went up to, let us say, $86 million, then your 45 percent figure increases; does it not?

Mr. POOLE. It would increase by $4½ million.

I beg your pardon. I should say that there is escalation already allowed for in there, but not that much escalation.

Mr. TOLLEFSON. I appreciate that. I am using this just for purposes of illustration.

Suppose the United States $105 million figure went up to $115 million, which I appreciate is out of line. United States Lines do not pay any more than $47 million, do they, but you would be paying more.

Mr. POOLE. The way the bills are now written, I think some provision has to be made for that.

Mr. TOLLEFSON. In other words, that is one point with which you are concerned?

Mr. POOLE. Yes, sir.

Mr. RIVERS. Could I ask a question?

The CHAIRMAN. Yes.

Mr. RIVERS. In other words, make whatever percentage required of one apply equally to the other; is that your point?

Mr. POOLE. Just simply that so far as escalation is concerned, that also ought to be one of the items of equal treatment. That is the whole point.

Mr. RIVERS. That is the total figure; is it not?

Mr. MILLER. No, because you cannot anticipate that at any time.

The CHAIRMAN. What we are after are your observations. That is all Mr. Poole.

Mr. POOLE. I just wanted to make the point that escalation is different as it now stands.

Mr. ALLEN. Mr. Poole, we go happily along expecting everything to go up. Suppose one of these things happens and the prices go down a little bit. Would you then be content to have no reduction downward for escalation from the 45 percent of the ultimate price?

Mr. POOLE. I am not going to argue against that. All I was suggesting is that there should be comparability and whatever you feel is right on escalation is satisfactory.

Mr. ALLEN. Under the present terms of the bills, if the escalation were downward under General Franklin's proposals, he still would pay $47 million and get no credit for a cheaper price?

Mr. POOLE. That is right.

Mr. ALLEN. In either case, there may be need for some change?

Mr. POOLE. Yes, it could go either way.

The CHAIRMAN. It would be up or down. You would be protected up and down.

Mr. MAILLIARD. Mr. Chairman.

What this amounts to is that we ought to either have fixed price in both cases or percentage in both cases?

Mr. POOLE. I do not see anything wrong with fixing $34 million as the price because in both cases it is an estimated cost. The $105 million is a bid, but I am not sure that it is what you would call a business bid.

Mr. MAILLIARD. But in order to get comparable treatment, then, if you have a fixed price bill in both cases, if there should be downward escalation, the Government gets the benefit. If there is upward escalation the Government pays it, whereas, if we took percentages in both instances, the company would be gambling that they would get the benefit or the cost proportionately.

Mr. POOLE. That is right.

Whatever the committee thinks is the right way to treat that, I am pretty sure would be acceptable to us.

Mr. DREWRY. Mr. Poole, referring to your answer to Mr. Mailliard's question, what do you mean by saying that the bid is not a business bid?

Mr. POOLE. The $105 million bid, in my understanding, is an estimate which has been carefully prepared by a shipyard. It is not a firm proposal to build the ship for $105 million.

Mr. DREWRY. Is there any way they can get out of it?

They testified here that they were hanging on to it desperately.

Mr. POOLE. The $105 million bid for a 30.7-knot ship?

Mr. DREWRY. The bid that they put in.

Mr. POOLE. Yes, but you are talking about a ship that is not a 30.7-knot ship. You are talking about a different ship, Mr. Drewry.

Mr. DREWRY. I did not think I was.

Mr. POOLE. The $105 million bid is for a sister ship to the *United States*. The $105 million is for a 30.7 knot commercial ship. If there is any obligation on the people who put up that figure to build the ship, I do not know it, but Mr. Morse is here and I am sure he could tell you.

Mr. DREWRY. I asked a question earlier of Mr. Campbell in regard to interest rates for private money. Your figures have been examined on the basis of 5½ percent for money under private financing. There has recently been talk of a reduction in the interest rates, and what is your comment, or have you gone into the question at all to see whether there is any lower rate that would be available at this time?

Mr. POOLE. I do not think that money has actually been borrowed at less than 5 percent. I think there is a fair prospect that as time goes on new markets will be opened up, and that it will be possible, my guess is, perhaps to borrow at 4½ percent.

The cause of the half percent difference in estimate between the 2 lines probably arises from 2 factors which simply exist and are there. The first is that the *United States* is an obvious success, in which a sister ship represents a little easier and more definite proposition on which to loan money.

The second thing is that American President Lines has gone relatively far in its replacement program, and has relatively piled up more and more debt than United States Lines Co. has, and those 2 differences, I think, perhaps explain the difference in judgment between the 2 companies of a half percent in what they would have to pay to borrow.

Mr. DREWRY. You did not see any prospect of interest rates dropping to anything at all commensurate with 3½ percent?

Mr. POOLE. I do not think they are going to get down to 3½ percent or near it.

Mr. DREWRY. That is all, Mr. Chairman.

Mr. GROSS. Mr. Chairman, I have one question.

I want to go back to this speed business for just a minute.

Do I understand that you want a ship 26 knots minimum, but you do not want to pay for using anything above 26 knots?

Mr. BRINSON. That is right..

Mr. GROSS. Why not if you can use it?

Mr. BRINSON. Well, we are going on the principle that endeavor is being made to put the 2 companies on the same level, 1 in the Pacific and 1 in the Atlantic. In the United States Lines case, as

I understand it, the commercial ship is 28½ knots, but still they can operate up to 30.7.

We established the commercial ships as 26 knots and then later on, if we need to operate for various reasons at faster speed, then we would not want to be put in the relatively different position of having to pay for the speed.

In other words, we would like to have complete latitude in operating the ship, building the speed in for defense purposes above the commercial speed, and then operating at such speed as we determine economically feasible later on.

Mr. GROSS. The United States Lines today pays for use of speed on the *United States* above a certain maximum; does it not?

Mr. BRINSON. I understand not.

Mr. MORSE. May I comment, Mr. Bonner?

The CHAIRMAN. Yes.

Mr. MORSE. My version of this speed question is this: I interpret that the action of the committee in fixing a price of $47 million is to say, "This vessel has a commercial speed of 30.7 knots, and we are going to put a $47 million price tag on it.

As far as American President Lines is concerned, they are saying that their commercial speed is 26 knots. If, for example, they should build a duplicate of the *United States* and use the vessel at 30.7 knots commercially, they should pay for it.

Mr. POOLE. Mr. Chairman, may I add one more thing to that?

It costs a good deal more money to run a 39-knot ship at 30.7 knots. It costs a little more money to run a 31- or 32-knot ship at 26 knots. I think there are two sides to the question.

I pose this as an if: If there is to be a speed clause and we have to pay for more speed, then I think that there should be some basis on which the United States will pay for the extra cost of operation if the ship is operated at 30.7 or 26 knots. In other words, it should not be a one-way street.

Mr. GROSS. By the United States, do you mean the Government or the United States Lines?

Mr. POOLE. By United States, I meant the United States Government. There are two sides to it, if we are going to pay for something extra, but if the Government wants something extra that we do not use, then those costs ought to be for the account of the Government.

Mr. GROSS. May I suggest, Mr. Bonner, that part of that benefit is picked up when the Government pays 55 percent of the cost.

Mr. POOLE. Mr. Chairman, I had one more item to comment on. I will offer this just as a comment and no more than that. It has been proposed that there be a 75 percent recapture applied to a ship where there is an extra contribution by the United States Government.

Now, I think that there is some merit to that thought and that merit is obvious. I also think there is another side to it. That has been brought out by inference so far.

I think it applies to income taxes. I think it applies to almost anything where a recapture or a taxation is above 50 percent. When you get up to 75 percent, you are very strongly influencing what otherwise would be business decisions on what to do. You force an owner. No matter how he tries to be fair and reasonable about things, you force

him to try to favor some other ship or do it some other way or allocate expenses.

I think you are getting up to a point that is possibly wrong in spirit. If you want something extra, maybe you might make it 10 percent. When you get it up to 75 percent, I think there is genuine doubt. It is just like a man who pays 75 percent income tax. He decides to have municipal bonds and go in for capital gains. You have forced him to do something else.

I think there is genuine question as to whether it is wise from your point of view to ask 75 percent.

There is one other comment which occurs to me, and I think it is of some importance. That is with respect to determining what is the profit on a given ship.

Now, up to a point, it is not difficult. The direct costs are easy. Certain parts of the overhead cost and so on are allocated according to formulas which have been established by the Maritime Administration, and perhaps they are of course a little bit arbitrary, but in general they are reasonable and sound formulas.

It is when you get into such things as income taxes where there is likely to be real trouble, and by that I mean that right now, for example, if we make a million dollars on our subsidized operations and lose a million dollars on our nonsubsidized operations, you cannot split. In other words, there is no tax and no tax is allowed as a charge in computing recapture.

If you go the other way, if you make a milion dollars in your nonsubsidized operation and lose a milion dollars on the other, it works the other way.

In other words, we have got into some real troubles in trying to make allocations of income tax, and there are some very difficult problems when you get beyond the ordinary allocations and the direct expenses, and I think they ought to have a good look and possibly questions put to the Maritime Administration as to how you would work out those things before you determine that there is to be a real separation and a separate recapture.

The recapture also appears to be in this bill on an annual basis. Five years was not considered adequate by the Maritime Commission way back in 1939. They came into this committee and secured the committee's approval, and the approval of the whole Congress, of moving it to 10 years so as to catch the ups and downs. I think that recapture on any basis one a 1-year basis is very bad in an industry that has ups and downs like ours.

The CHAIRMAN. Thank you very much, Mr. Poole and Mr. Brinson.

Mr. Morse, would you be prepared tomorrow based on this testimony?

Mr. MORSE. Yes, sir.

The CHAIRMAN. The committee will adjourn until 10 o'clock tomorrow.

(Thereupon, at 12:40 p. m., the committee recessed, to reconvene at 10 a. m., Thursday, March 13, 1958.)

SUPERLINER LEGISLATION

THURSDAY, MARCH 13, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met, pursuant to recess, at 10:05 a. m., in room 219, Old House Office Building, Hon. Herbert C. Bonner (chairman) presiding.

The CHAIRMAN. The committee will come to order.

This morning we will continue the hearing on the two superliners, the Pacific and Atlantic liners.

The witness will be Mr. Clarence Morse.

STATEMENTS OF CLARENCE G. MORSE, MARITIME ADMINISTRATOR (RESUMED); WALTER C. FORD, DEPUTY MARITIME ADMINISTRATOR; AND L. C. HOFFMAN, CHIEF, OFFICE OF SHIP CONSTRUCTION, MARITIME ADMINISTRATION

Mr. MORSE. Good morning, gentlemen.

I have a prepared statement. I do not have copies with me at the moment. They will be here in a matter of 10 minutes.

The CHAIRMAN. Let me say at the beginning, Mr. Morse, that it is apparent from the testimony that the committee has had heretofore that these two ships are most desirable. It seems that the various departments of the Government, the national defense, and so forth, have clearly shown that they are needed.

The question arose as to the ability of the two operators to pay more than what they had said they could pay. Therefore, we asked the General Accounting Office, which is an arm and agency of the Congress, to assist in ascertaining whether or not it may be possible that the companies could pay more.

From the testimony yesterday, the General Accounting Office clearly substantiated the position of the operators, in my opinion. I think the record will probably bear that out.

The question now is how we can arrive at a solution where we can build these ships. We are going to say to the Congress, "Here is the bill." If we want to supply everything for the rest of the world and do not do anything for ourselves, then it is up to Congress to say that we will continue to follow that policy. We will be like the cobbler's children. We will have worn-out shoes with holes in them and the rest of the world will have everything.

We are depending on you to advise us as to just how we can present a bill to the Congress on which you will agree so that we can reach the desired result if the result is desired by Congress.

Mr. MORSE. May I proceed with my statement?

The CHAIRMAN. You may discuss that if you care to, or you may proceed as you wish.

Mr. MORSE. Well, part of your comment, Mr. Bonner, deals with administration policy. I cannot control administration policy. I am sure you appreciate that.

The CHAIRMAN. I disagree with you on that statement. I think you are in a position where you can do a lot to influence the administration's policy. That is my opinion of you, and that is my opinion of your position.

Mr. MORSE. I appreciate your comment. As to that, I am personally in concurrence with the desires of this committee to get these ships built, and I will do everything that I can to achieve that result.

You have asked for my comments on the suggestion of the Comptroller General of the United States for amendments to the bills for the United States Lines and the American President Lines, H. R. 9342 and H. R. 9432, presented in connection with his report to the committee.

The views of the Department of Commerce were formally presented by the Department reports on these bills, dated February 4, 1958, and February 7, 1958, and by the testimony of the Under Secretary of Commerce for Transportation, Mr. Louis S. Rothschild, at the hearing February 7 and February 10, 1958, and I need add nothing to that statement.

My comment on the bills is in the interest of legislation which will carry out the objective of the bills if approved by the committee, and which will be feasible of administration.

To the United States Lines bill, there has been added to section 2 of the bill a proviso increasing the fixed price of $47 million by full amounts of any additional cost of construction, outfitting, and equipping other than national defense features arising out of any changes in the bid specifications. Presumably this refers to the outstanding bids referred to in section 1.

First, it is clear from the hearings that the committee wishes that any additional charges to the buyer over the price be made on the basis of a proportionate share of the cost.

Maritime understands that the $47 million price is intended to cover the cost of construction under the building contract and design agents' fees, expenses of outfitting and equipping the ship for operation, owners' equipment, stabilizers and escalation allowances, even though all these items are not included in the bid specifications.

Additional charges to the buyer should, however, include a portion of the cost of changes, if any, in builder's bid, which are hereafter approved by the Federal Maritime Board in the same ratio as the $47 million price is to the cost of the completed vessel less national defense features fixed at 45 percent for this purpose.

In other words, what I am saying is that, if changes are made in the ship or if special owner-provided equipment is hereafter requested, then they should be paid for by the owner to the extent of 45 percent of the cost.

The CHAIRMAN. If I remember right, I think the representative of the United States Lines was agreeable to that yesterday if they agreed to the design changes.

Mr. MORSE. That is right. It would have to be an agreement between Maritime and the United States Lines. I think they are in agreement that they would be willing to share 45 percent.

The CHAIRMAN. Beyond that, everything so far is in the construction specifications.

Mr. MORSE. For example, there are owners' items which are not included in the bid specifications at the present time, but it is our understanding that the intent of this bill is that all such items will be included in the $47 million price except for changes hereafter made.

The CHAIRMAN. Yes, and the United States Lines yesterday agreed that, if they requested changes and you and they agreed mutually that they were beneficial, then they would accept their proportionate part of that additional cost.

Mr. MORSE. That is my understanding, and even if we were the ones who made the suggestion and they agreed to it, I would assume they would be willing to bear that share also.

The CHAIRMAN. Yes.

Mr. MORSE. In respect to this item of $128 million about which we have been talking, that is a figure arrived at by Maritime, based on the bid of New York Ship. It includes escalation.

I mention this so that there may be no later misunderstanding. Our figure of $128 million includes the commercial vessel, it includes the national defense features, escalation on both the national defense features and the commercial vessel, it includes changes and owner's expenses and includes an item of administrative expense at Maritime of a half million dollars.

In other words, we are talking about a ship ready to go.

Our figure of $128 million did not include the stabilizers, but it is my understanding from the discussions here in the committee that the $47 million is intended to include a ship including stabilizers. I mention this so that there will be no confusion at a subsequent date.

I want to make it clear that the ship which is being sold under this bill is for commercial use at the 30.7-knot average speed of the *United States*. This price is, of course, a special inducement by Congress to get the ship built.

I believe that the buyer getting this ship should be charged for use in commercial operation of those features which are paid for by the United States as national defense features over and above the basic commercial vessel built for 30.7-knot operation.

This would be in accord with our policy in other cases such as the charge for commercial use of excess power. This is commonly referred to as a speed clause.

When I am talking about a speed clause, so that there are no misunderstandings, we are talking about a clause in the contract which will be based on revolutions and will be so drafted that no charge will be made for use of power sufficient to turn up X number of revolutions which will permit 30.7-knot average speed all year round, but will have the effect of charging for use of excess power on a daily basis.

For example, if in normal operation a vessel having 20 years life is at sea 250 days per year and if the cost of the excess power which is built into the ship is $20 million, then we would propose that for each day during which excess power is used, the owner would be charged 1/250 of one twentieth of $20 million, multiplied by 45 percent; in other words, 1/250 of $9 million divided by 20 or $1,800.

We have used somewhat different speed clauses earlier when we sold Mariners a number of years ago. This we think is a more practical speed clause approach than the clause we previously used. I mention this so that again there will be no misunderstanding as to what our views are.

Mr. GROSS. Mr. Chairman.

Does the same formula apply to the APL ship?

Mr. MORSE. Yes, I have not gotten to that, but I would propose an identical formula.

Section 5 of the United States Lines bill is new, and provides for payments to the United States of excess profits from the operation of the new vessel; that is, net profits in excess of 10 percent per annum of the contractor's capital necessarily employed. Seventy-five percent of such excess profit is to be paid to the United States. However, this payment should be computed cumulatively and in the same manner and for the same periods for recapture purposes under the 1936 act as for other vessels of the buyer.

I think GAO had the same intent even though the language in their draft called for annual accountings. I don't think that they intended that the recapture be computed on an annual basis, but on the same basis as is provided in the 1936 act.

The CHAIRMAN. What length of time would that be?

Mr. MORSE. It is a 10-year recapture basis. I do not mean by that that if this ship comes in, the recapture on this specific ship will be for the next 10 years. It will be included in the contract, and at the end of the 10-year recapture period of the contract it would be adjusted as far as the recapture is concerned.

On the American President Lines bill, my understanding about section 2 of the APL bill is that the price for the sale of a 26-knot ship is at 45 percent of the domestic cost of construction, as determined by the Federal Maritime Board. This cost would normally, then, include 45 percent of the cost of the construction of the ship, based on the lowest responsible bid approved by the Board, plus 45 percent of the cost of design agent's fees, expenses of outfitting and equipping the ship for operation, owner equipment, and escalation allowances.

An additional charge to the buyer should include 45 percent of the cost of changes in the building bid which are approved by the Federal Maritime Board.

The CHAIRMAN. Not just approved by you, but agreed to between you and the contractor?

Mr. MORSE. That is our standard procedure. That is my intention when I make the statement.

The CHAIRMAN. I want it to be clear.

Mr. MORSE. We do not force on them ordinarily things that are not acceptable to them as a commercial ship.

The CHAIRMAN. I want the record to be clear.

Mr. MORSE. A fixed price as mentioned is premature since we have no data on which to base a fixed price, as we have in the case of the United States Lines, where we have processed bids and have secured considered estimates as to the cost of the ship ready for operation.

My comments on the United States Lines bill relating to charges for commercial use of special features such as speed and to excess-profit payments are applicable to the American President Lines bill.

If you wish, we have some suggested amendments for the United States Lines bill and for the American President Lines bill, which would have the effect of carrying out our ideas.

If you will refer to H. R. 9342 as the General Accounting Office version, we can discuss that.

Mr. GROSS. That is the typed version, Mr. Morse.

Mr. MORSE. The typed version; yes, sir.

Insert in the fourth line from the bottom of page 1, immediately before the comma, the words "including stabilizers, owner's furnished items, design agent's fees, and escalation".

The CHAIRMAN. That is after "*provided, however*"?

Mr. MORSE. No, after the word "equipped".

The CHAIRMAN. We do not seem to have this typewritten copy of H. R. 9342 for all the members.

Mr. MORSE. The typed copy as it now reads is:

Concurrently with entering into a contract with the shipbuilder for the construction of said vessel, the Board is authorized to enter into a contract for the sale of the vessel, fully outfitted and equipped. * * *

We are proposing that after the word "equipped," the following phrase be included:

* * * including stabilizers, owner's furnished items, design agent's fees, and escalation.

The CHAIRMAN. Read that over. I want to ask you a question. Read what you propose to put right after equipment.

Mr. MORSE. The phrase is:

* * * including stabilizers, owner's furnished items, design agent's fees, and escalation.

The CHAIRMAN. There was something yesterday about the hotel equipment, and someone raised the question, would it be of a higher standard equipment than that on the *United States* as of today, raising the point that the operator might ask for excessive equipment.

Mr. MORSE. It is our understanding that it would be the same standard as is now aboard the steamship *United States*.

The CHAIRMAN. So that the language in the record would take care of that?

Mr. MORSE. It might be desirable to rephrase this slightly.

I notice that in the draft prepared, I assume by United States Lines, dated March 12, 1958, they have a phrase which might be applicable and they are referring to subsequent changes:

* * * any changes in the usual outfitting and equipment of the vessel.

That is what we have in mind: That the hotel equipment would be the standard which is now in use on the steamship *United States*. If there is any enhanced standard requested by the United States Lines, they should bear a portion of that enhanced cost.

Mr. PELLY. Mr. Chairman.

Mr. ALLEN. May I ask a question?

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. Mr. Chairman.

Would not all of those matters that are uncertain now be made completely certain at the time that the two contracts are entered into for the construction of the ship, and also for its sale to the United States Lines?

Mr. MORSE. I would think so; yes, sir.

Mr. ALLEN. So that there would be no uncertainty at the time the Government was spending the money?

Mr. MORSE. Not at all.

Mr. ZELENKO. Mr. Chairman, may I ask a question?

Mr. Morse, I am going to ask a question about this particular point.

In your main statement you stated in substance that the question of a fixed price was premature.

Mr. MORSE. That is for the APL ship.

Mr. ZELENKO. For the APL ship, and you also said something about the fact that there were no data. Do you have it in your statement?

Mr. MORSE. I was referring to the APL ship there, Mr. Zelenko. I stated in respect to the APL ship:

> A fixed price as mentioned is premature since we have no data on which to base a fixed price as we have in the case of the United States Lines, where we have processed bids and have secured considered estimates as to the cost of the ship ready for operation.

Mr. ZELENKO. I have just one more thing to clear up on the two amendments that you just mentioned.

After the word "equipped," where in your proposed amendment you state "including stabilizers," et cetera, and you talk there of a fixed price of $47 million—now, just below that on the next line where you are changing the words "full amount" to "45 percent," a question I would like answered for me is: Are not those two amendments inconsistent?

I am not cross-examining, but I want to explain, if possible.

On the third line from the bottom, you use the expression "fixed price of $47 million," and on the second line from the bottom you are changing the words "full amount" to "45 percent."

Are not those inconsistent?

The CHAIRMAN. You are talking about the American President Lines when you say 45 percent?

Mr. MORSE. No, Mr. Bonner.

Mr. ZELENKO. Are you talking about the United States Lines?

Mr. MORSE. We are talking about the United States Lines at this point. I think I can explain.

Mr. ZELENKO. To me it appears inconsistent because 45 percent might be more than $47 million. Will you please explain that?

Mr. MORSE. The proviso has reference to changes only, and as to these changes we are suggesting that the owner participate to the extent of 45 percent of the cost.

Mr. ZELENKO. But you say "provided that such price," and the words "such price" on the third line allude to $47 million.

Mr. MORSE. That is correct.

Mr. ZELENKO. They follow after $47 million.

Mr. MORSE. That is right.

Mr. ZELENKO. Provided that such price, alludes to $47 million?

Mr. MORSE. That is right.

Mr. ZELENKO (reading):

> *Provided*, that such price shall be increased to reflect 45 percent.

Is that inconsistent?

Mr. MORSE. No, Mr. Zelenko. You have to read the whole phrase to find what we are talking about when we talk about the increase.

The 45 percent increase has reference only to changes in the present ship, subsequent changes.

Mr. ZELENKO. I am not arguing with you, sir. I want to make this clear. It is not clear to me. It appears to me that this may change the $47 million price.

I am not talking about the merits of the situation, just the language.

Mr. MORSE. I think you are wrong, Mr. Zelenko.

Mr. ZELENKO. It is not a question of whether I am right or wrong. I just do not understand it. It appears that way to me. I have been wrong before.

Mr. MORSE. We all have.

What this section 2 says, as I understand it, is that the ship as now designed, fully equipped, ready to go, will be sold to the United States Lines for $47 million.

Mr. ZELENKO. I want you to read at this point.

Mr. MORSE. Let me finish.

Mr. ZELENKO. May I interrupt for a minute?

The CHAIRMAN. Let the witness clear himself.

Mr. ZELENKO. I am sorry.

Mr. MORSE. It will be sold for $47 million. Hereafter, if United States Lines comes in and says, "We want this change made or some other change made," the $47 million price will be increased by 45 percent of the cost of that change.

Mr. ZELENKO. Yes; I agree with you there, but, you see, that is what I am talking about. It says:

Provided, however, That such price shall be increased to reflect—

The point is this: The United States Lines people say they cannot pay more than $47 million.

The CHAIRMAN. But they said yesterday that any changes that they would agree on that they would pay their proportionate part in accordance with this $47 million figure, so that that clears that up.

Mr. ZELENKO. The only purpose of my question is to try to get the language clear if we are going to proceed, because I do say, and this is not contentious, that that language seems to me to be a bit awkward and may lend itself later on to a number of different interpretations.

You talk about a fixed price, and then you say it may be increased a certain percentage whether by agreement or not, and the folks came along from the United States Lines yesterday and said, "We can't pay more than $47 million."

According to the way I read this, it sounds awkward to me and may arouse contention later. I think we all agree that we are trying to get something that will be clear and subject to one interpretation.

I give my opinion that it does not seem clear, but seems awkward. This does not go to the merits of the legislation but merely to the language. It was not a question of whether you were right or wrong. I cannot follow it. It seems awkward.

Mr. MORSE. Mr. Franklin, as I understood him yesterday, said that they were agreeable to paying a pro rata cost of these changes which are referred to in the proviso clause here.

Mr. ZELENKO. Mr. Morse, I want to reiterate my position. I am not arguing the merits or their possible agreements or disagreements, but just the wording, because I have taken the wording from your

amendment. To me it seems to be a bit awkward. I am talking of the language situation now.

Mr. MORSE. If there is any difficulty in the phrasing I think that is a matter of draftsmanship which the committee counsel can correct.

The CHAIRMAN. How would you change it

We speak of the $47 million. Then we say:

Provided, however, That such price shall be increased to reflect 45 percent of the full amount of any additional cost of construction, outfitting, and equipping.

Mr. MILLER. Other than the national defense features.

The CHAIRMAN. Other than national defense features.

We know that that would be an agreement between Maritime and the United States Lines, and there would be features that the United States Lines asked for themselves.

Mr. ZELENKO. As say, I raise this to try to clear it because it did seem awkward to me. I shall not belabor the point.

Mr. PELLY. Mr. Chairman.

Mr. CHAIRMAN. Mr. Pelly.

Mr. PELLY. Can I have an explanation of what hotel equipment represents? Is that crockery?

Mr. MORSE. Kitchenware, crockery, and linen and silverware.

Mr. PELLY. In other words, they pay 45 percent of that item?

Mr. MORSE. No. If that hotel equipment is the standard of the equipment on the steamship *United States*, the $47 million price will include all those items. If the standard of that equipment is in excess of the standard of the similar equipment on the steamship *United States*, then they will pay 45 percent of the excess cost of that equipment.

Mr. PELLY. It seems sort of odd to me that the foreign construction differential would include kitchen equipment and crockery and things of that nature.

Mr. MORSE. We are using 45 percent so that the percentage will be consistent with the pricing of the bill. When we determine construction subsidy at the Board level, the rates for some of these other items are different than the rates for the construction of the ship itself. There are variations. We have used the 45 percent because we think it is an easily usable and easily understood percentage.

The CHAIRMAN. If you don't mind, we will read the suggested language of the United States Lines. The United States Lines suggests:

Provided, however, That such price shall be increased in an amount equal to 45 percent of any net change in the cost of the vessel other than national-defense features arising out of any change in the bid specification or any changes in the usual outfitting and equipping of the vessel if such changes are requested by the United States Lines after the enactment thereof.

Mr. MORSE. We have no difficulty with that.

The CHAIRMAN. You would not have any difficulty?

That really spells it out in all probability a little better than the language here, so that we know clearly what we are talking about.

Mr. ZELENKO. I am not saying that I would be for or against the wording of the United States Lines, but I say that it spells out a little more clearly, as you indicate.

The CHAIRMAN. You can understand exactly what they mean. We understand it now and probably when we get into executive session to prepare this, we will substitute or clarify our own language.

Mr. ZELENKO. It is just a question of clarification.

Mr. ALLEN. Mr. Chairman, may I ask a question on that point?

The CHAIRMAN. Yes.

Mr. ALLEN. Mr. Morse, we keep talking about increasing the bid, but I still think that sometimes prices go down. Suppose there is a change downward in that total price. Suppose, for example, there is no escalation over a period of 4 years, or suppose they decide that the stabilizers do not go in because something else is better. What happens if the price to the Government for the construction of the original ship or the outfitting of it goes down?

Does the price get decreased by the amount of 45 percent of the amount?

Mr. MORSE. No, sir; not under this language.

Mr. ALLEN. Should it, or do we provide only for increase?

Mr. MORSE. I think that if a major item such as the stabilizer is eliminated, there should be a revision downward in the price of the ship but, if there is less escalation than we anticipate, I do not think that the sale price should be reduced.

Mr. ALLEN. Under the language of the bill as proposed up to now, could you reduce the price if the stabilizers were eliminated?

Mr. MORSE. No, sir.

Mr. ALLEN. The bill would have to be changed to make such a provision?

Mr. MORSE. Yes, sir.

Mr. MAILLIARD. Would the gentleman yield?

Mr. ALLEN. Yes, sir.

Mr. MAILLIARD. Would it not be a fair proposition to leave the price as it is, no matter what might be eliminated, until you got to the point where you could build the ship under the 1936 act?

Since United States Lines is coming here saying, "We can pay $47 million or more," then they ought to pay the $47 million. If there is saving, it should accrue to the Government unless the price should get so low that you could build the ship under the 1936 act. That is my thought.

Mr. MORSE. I would buy that. That is my approach.

Mr. CURTIN. Could I ask a question, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. CURTIN. Mr. Morse, assuming that the United States Lines would decide they would like solid gold or silver plates, why should the Government pay 55 percent of that?

The CHAIRMAN. The language we have been discussing would take care of that.

Mr. CURTIN. As I understand the language, we pay 55 percent of the increased cost of such hotel equipment if the United States Lines think it would be nicer on their ship. I am curious as to why we should pay any of that.

Mr. MORSE. That is why we suggested that "and approved by the Maritime Board" should be included. We think that any changes would have to be approved both by United States Lines and the

Maritime Board. If we approve gold plate, I think you ought to get after the Maritime Board.

Mr. ZELENKO. That is possible.

Mr. MORSE. Yes, sir. No, I do not think it is possible that we would approve gold plate.

Mr. GROSS. The gold plate would probably be there before we found out about it, would it not?

The CHAIRMAN. We will fix that. There will be no gold plate.

Mr. GROSS. I would like to ask a question, Mr. Chairman.

This is going to be a $130 million ship with the stabilizers; is that correct?

Mr. MORSE. Yes, sir.

Mr. GROSS. What if the stabilizer fins are not put in?

Mr. MORSE. It will cost about $128 million.

Mr. GROSS. Will that reduce the obligation of the United States Lines?

Mr. MORSE. Not if my views are adopted by the committee.

The CHAIRMAN. Not under this bill.

Mr. McIntosh.

Mr. MCINTOSH. I want to pursue the same subject which has been raised before.

What is the justification for using the 45 percent in lieu of the other draft here, where the United States Line pays the full cost of any additional items that they want to put in over and above the national-defense items?

Mr. MORSE. If we were proceeding strictly under the 1936 act, the Government would normally participate in the cost of changes, and this is merely being consistent with the 1936 act principle.

Mr. ZELENKO. One more point, if I may, Mr. Chairman; also on the question of language.

On the bottom of page 1, you suggest that the words "outfitting and equipping" be eliminated.

Mr. MORSE. Yes, sir.

Mr. ZELENKO. What is the significance of the elimination of "outfitting and equipping," because it was my thought that yesterday when we spoke about outfitting, this business of the crockery came in under outfitting. I want the explanation of the elimination of those two words and why the word "construction" remained in, if you do not mind, Mr. Morse?

Mr. MORSE. Because it is included, in my view, in the phrase "or out of additional items not included in the bid specifications."

Mr. ZELENKO. Thank you.

Mr. TOLLEFSON. Mr. Chairman.

The CHAIRMAN. Mr. Tollefson.

Mr. TOLLEFSON. Coming back to this use of speed in excess of the commercial speed, as I understood your statement the bill recognized the commercial speed of 30.7 knots.

Mr. MORSE. No, the bill does not identify any speed.

Mr. TOLLEFSON. But that is the net result of it, is it not?

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. Now, suppose that 5 years from now the French or somebody else builds a ship that runs 33 knots and that becomes the commercial speed, and the United States, in order to compete, has

to run at 33 knots, which would then be the commercial speed. Would they pay for the excess?

Mr. MORSE. I think they should.

Mr. TOLLEFSON. Do you mean all of the excess?

Mr. MORSE. The excess power which would be required to run a vessel at an average speed of 33 knots to the extent that that excess power exceeds the power required to run this vessel at an average of 30.7 knots.

Mr. TOLLEFSON. They would bear the full cost of the excess speed?

Mr. MORSE. Yes, sir. It would be 45 percent of the cost.

Mr. TOLLEFSON. Up to whatever speed they use?

Mr. MORSE. Yes, sir.

Mr. TOLLEFSON. That is all, Mr. Chairman.

The CHAIRMAN. Then you would pin them down to the 30.7-knot speed, notwithstanding what the British may establish in new vessels that they build?

Mr. MORSE. Yes, sir.

When I say 30.7, Mr. Bonner, I am suggesting that, if we built for them a vessel which would operate at a speed of 30.7 on the average, that would mean that in favorable conditions that vessel could do 32 or 32½ knots, and they would be free to use whatever power which would permit the vessel to operate at maximum speed; and, obviously, if it was designed for an average of 30.7, it could not under any circumstances go above that 32 knots or 32½ knots.

Now, these gentlemen have come in and said that they can operate at 28½ knots and make their 2-week turnaround. Under our construction subsidy preliminary determination, we would have sold the vessel to them at approximately $47 million as a 28½-knot ship, but I personally was unwilling to accept that the commercial speed is 28½ knots, in view of the history of the use of the vessel at 30.7 knots and pricing the ship as a 30.7-knot ship, they could not afford to buy it because the price, as I recall, was about $56 million. So that the committee has suggested, in order to get the ship built, that it be sold to them at $47 million.

We are talking about competition with existing vessels, and any vessels that are now building as far as we know, and a vessel of 30.7 knots is in my opinion the commercial speed today.

If we are talking about putting these gentlemen in position to compete with a 35-knot commercial operation, I think they ought to pay for a 35-knot operation. It is that simple, in my opinion.

The same thing applies to APL. They say that their optimum commercial operation is 26 knots to meet existing and projected competition.

The CHAIRMAN. That is something in the future, is it not? That lies within the province of the Maritime Board to adjust if conditions in the future may seem to indicate that an adjustment should be made.

Does it not lie within your power to do it?

Mr. MORSE. Let us say that it would be a clause in the contract, and we would be unwilling to change that clause unless we found other considerations running to the Government which would justify the Government permitting the use of the additional speed without charge.

The CHAIRMAN. Anyway, this situation as it exists now is satisfactory to the United States Lines?

Mr. MORSE. I cannot speak for them.

Mr. GARMATZ. Mr. Chairman.

The CHAIRMAN. Mr. Garmatz.

Mr. GARMATZ. Mr. Morse, do the defense features come in anywhere at all in reference to the speed above 30.7 knots?

Mr. MORSE. I do not quite understand what you mean.

Mr. GARMATZ. We are talking about 28 knots and then 30.7 knots, and say that beyond that they pay. Do the speed features in the ship come into the national defense features?

Mr. HOFFMAN. All the additional power in the ship is bought by the Government as a defense cost.

Mr. GARMATZ. Over what speed?

Mr. MORSE. Over an average of 30.7.

Mind you, the bill does not identify any speed but it is my interpretation that what we are talking about here is a commercial ship of a speed of 30.7 knots, so that any power in the ship which permits it to develop a speed in excess of a 30.7 commercial speed would be picked up by the Government 100 percent as a defense cost.

Mr. GARMATZ. That is over 30.7 knots?

Mr. MORSE. Yes, sir.

Mr. GARMATZ. I thought you said that over 30.7 knots that the company would have to pay for it.

Mr. MORSE. At the present time, if the vessel is not used at a speed in excess of 30.7, the Government would pay all of it.

Mr. GARMATZ. For commercial purposes, the shipping company would pay, and for defense purposes the Government would pay?

Mr. MORSE. If the vessel is not operated at more than 30.7 average, then the company would not be picking up any cost of the excess power bnilt into the ship.

If, however, under my proposal they would use the vessel, say, at a 34-knot average, then we would expect them to pay 45 percent of the cost of the excess power built into the ship if they used it on a continuous basis.

Mr. ZELENKO. Mr. Chairman.

The CHAIRMAN. Mr. Zelenko.

Mr. ZELENKO. I read in this morning's papers that the French are building a new liner called *La France*, to replace the *Ile de France*, at about 55,000 tons. Do you have any information as to the proposed or projected speed of that vessel?

Mr. MORSE. Yes, sir. It is my understanding that it is a 31-knot commercial ship.

Mr. ZELENKO. I have just one more question.

Would that not, then, become an average commercial ship, 31 knots instead of 30.7 knots?

Mr. MORSE. It would depend largely, I think, on the schedule of the ship.

Mr. ZELENKO. I see.

The CHAIRMAN. Mr. Drewry.

Mr. DREWRY. Mr. Morse, it is in the national interest, your interest as well as the interest of the operator, that the ship remain fully competitive for as long as possible, is that not correct?

Mr. MORSE. Certainly.

Mr. DREWRY. In fact, that is part of the subsidy concept that the vessels will be competitive.

Now, in view of the excess power that is built into these things initially, perhaps because of national-defense aspects, if in the future, as Mr. Tollefson mentions, the French, the British, or anyone else may come out with a much faster ship, is there not the same reasoning behind an allocation of the cost of this additional power as there is in any other changes that might be made in the ship?

Why should they pay for all of the additional power? Why should there not be a pro rata of 45 percent?

Mr. MORSE. That was my proposal.

Mr. DREWRY. I did not understand that that was the understanding.

Mr. ALLEN. Mr. Chairman.

Mr. Morse, is it not a fair summation to say that under the 1936 act this vessel would cost the company $55 million, but under our proposed legislation the Congress would be telling you that you should sell a $55 million vessel with 30.7 knots built into it for $47 million, and by the same token, if we want them to get the vessel at 35 knots for $47 million, all we have to do is pass a law later and authorize a change in the contract?

Mr. MORSE. Or else in the present legislation so advise us.

Mr. ALLEN. But it is a decision, under the circumstances, of the Congress rather than the Maritime Administration as to how far we amend the 1936 act, is it not?

Mr. MORSE. Oh, very definitely, and I am not presuming to tell the committee what should be done. I am just expressing my own views.

The CHAIRMAN. Mr. Gross.

Mr. GROSS. Mr. Morse, the French are presently building a ship. Is that to operate at 31 knots, as your testimony indicated, or at what speed is this French ship to operate?

Mr. MORSE. It is my understanding that it is being built to operate at a commercial operation at 31 knots. Whether they in fact will operate at 31 knots will depend entirely on what scheduling they need to make.

Mr. GROSS. That would not be the maximum speed of the French ship, would it?

Mr. MORSE. I would assume that under full power that ship would do 32 or 32½ knots.

Mr. GROSS. But it is a 31-knot ship, according to the testimony that you gave earlier to the committee. That is, it is proposed to apparently be operated at 31 knots.

Mr. MORSE. Yes, it is designed as a 31-knot ship, which in my language means that all year round, good weather and bad weather, the vessel will average 31 knots.

Mr. GROSS. What is the French Government's subsidy to that ship? Do you recall?

Mr. MORSE. My recollection, confirmed by Mr. Hoffman, is that the French Government will participate to the extent of about 25 percent of the aggregate cost of the vessel.

Mr. GROSS. The vessel is to cost approximately $78 million fully equipped, air-conditioned and so on, but without defense features?

Mr. MORSE. Mr. Hoffman mentions that that is the contract price, but whether it includes or does not include escalation, I do not know. I would assume that it does not include escalation.

Mr. GROSS. Thank you.

Mr. PELLY. Mr. Chairman.

The CHAIRMAN. I will recognize you in just a minute.

You say twenty-some percent subsidy, but it is a fact that the French Government is in a way the operating company of this shipping loan, are they not?

Mr. GROSS. The French Government is a substantial owner of the French Line, and I think the French Government appoints the managing operator.

The CHAIRMAN. So that after all it is difficult to ascertain just what the French Government is putting into the ship. Would you not say that?

Mr. MORSE. I think our figures are correct, Mr. Bonner. I think our information is correct.

The CHAIRMAN. Do you know how much private capital is being put into the ship?

Mr. MORSE. I do not know offhand. I do not recall the share participation in the company. Part of it is Government owned, and a small part, I believe, is privately owned, so that it is predominantly a Governmnt ship.

The CHARMAN. So that the Government might own 50 percent of the company. They put in that much money and then subsidize it 25 percent so that we might say that the French Government then subsidizes the ship 75 percent.

Mr. MORSE. It could be said so; yes, sir.

Mr. GROSS. We could also say probably that on the basis of uncollectible loans that we have subsidized up to 75 percent or 100 percent.

The CHAIRMAN. Your observation is splendid.

Mr. Pelly.

Mr. PELLY. Mr. Morse, I cannot understand your statement that you would interpret the sale of this ship to the United States Lines at $47 million as indicating that it was the intent of Congress to set 30.7 as the normal commercial speed. I did not see anything in this legislation or anything in the law or anything in the record for that matter that would so indicate.

Mr. MORSE. There is nothing in the record at all, but this was the point I brought up.

I think either you should advise us that you are selling the ship for operation at any speed that they want to operate it at or that they should include a speed clause.

Mr. PELLY. I was wondering if you were going to propose that in this legislation there should be something spelled out.

Mr. MORSE. Yes; I had not finished the suggestions in my amendments. You will notice in the last one, item F, it says:

> Insert in the second line of page 2, after the period, the sentence:
> "If the operator in the operation of the vessel uses power in excess of the power necessary to maintain an average speed of 30.7 knots, he shall pay for such use such additional amounts as the Federal Maritime Board determines represent a fair allocation to the operator of the cost of the additional power."

Mr. PELLY. I am sorry. I had not read ahead.

Thank you, Mr. Chairman.

Mr. GROSS. Mr. Chairman, may I ask one other question?

The CHAIRMAN. Let me hear this last. Iwas busy.

Mr. MORSE. Mr. Bonner, I was referring to item F in the suggested amendments, which recommended that a phrase referring to a speed clause be inserted in the legislation.

The CHAIRMAN. In addition to this language, you said it would be a 45–55 pro rata division on this speed question.

Mr. MORSE. Yes, sir.

Mr. ZELENKO. Mr. Chairman.

The CHAIRMAN. Let us ask Mr. Morse a question.

Mr. Morse, let me see if I have this straight.

The purpose of holding down on the speed is to extend the life of the ship, is that correct?

Mr. MORSE. No, sir; it has nothing to do with the extension of the life of the ship. My theory on this is simply this: These gentlemen for 5 years have operated the *United States* at 30.7-knot average. To my mind that establishes that 30.7 is the commercial speed required for the replacement of the *America*.

Therefore, if they operate the *America* replacement at an average speed in excess of what a 30.7-knot designed ship would operate, they should pay for 45 percent of the additional power built into the ship.

Mr. GROSS. The speed has nothing to do with the life of the ship, in your estimation, substantially?

Mr. MORSE. Fundamentally, I think it does increase the maintenance costs.

Mr. GROSS. Of course; but I am talking about a situation like running an automobile at the maximum speed or at 75 miles an hour, which will shorten the life of it. It will not shorten the life of a ship, is that right?

Mr. MORSE. I think it would shorten the life of the powerplant.

The CHAIRMAN. And you might say that the Government has paid all the cost of this additional speed that Mr. Morse is discussing. That is correct, is it not?

Mr. MORSE. I am sorry. Would you say that again, please?

The CHAIRMAN. The additional ability to develop this superspeed has been paid for entirely by the Government, has it?

Mr. MORSE. Yes, sir.

The CHAIRMAN. That is the reason that they want to charge for that.

Mr. MORSE. One further statement to Mr. Gross.

There is enough additional power built into this ship so that if they operated it at an average of 33 knots, it would still be within normal power, and would not unduly hasten the aging of the ship.

Mr. ZELENKO. Mr. Chairman.

The CHAIRMAN. Mr. Zelenko.

Mr. ZELENKO. In regard to this amendment (f), which deals with speed, you use the term "average speed of 30.7 knots," and from what you have told us, Mr. Morse, I assume, and correct me if I am wrong, that you arrived at that figure because that is what you classify as the commercial competitive speed. Is that right? That is the basis of the 30.7-knot figure.

Mr. MORSE. It is based only on the fact that for 100 consecutive voyages of the steamship *United States*, we examined the logs and found out that they operated for those 100 consecutive voyages at an average of 30.7 knots.

Mr. ZELENKO. Does that have anything to do with so-called competitive commercial speed?

Mr. MORSE. I would interpret it, since they are the fastest ship afloat and within a fraction of a knot of being as fast as the steamship

France, that is now under construction, that that would be the competitive commercial speed.

Mr. ZELENKO. So the fundamental thought behind it in arriving at that figure is the commercial competitive speed. That is the fundamental thought behind it.

Mr. MORSE. Yes, sir.

Mr. ZELENKO. I would suggest that perhaps it would not be advisable to write into the legislation an exact term like 30.7, but I would much prefer not going into the merits of the legislation but just easy interpretation, that, instead of 30.7, we have a clause or phrase in substance which says "competitive commercial speed," which may go up or down.

Here we are talking about the new *France*, which is 31 knots. If they do have the speed of 31 knots, that would be the competitive commercial speed.

Suppose they have a speed of 32 knots. My thought is this: that, if we have competitive commercial speed, it will not be necessary sometime in the future to change this figure of 30.7 or to have people operating the vessel go into conference and spend your time and their time saying they are not competitive, they are restricted under the legislation. As long as the thought behind it is competitive commercial speed, I would like that in there instead of the exact figure.

That competitive commercial speed could easily be arrived at by the same method by which you arrived at it in putting down this figure.

Do you understand?

Mr. MORSE. I understand.

Mr. ZELENKO. I wonder if you should put that in there in view of the fact that there is going to be a ship in the near future with a higher speed. That would be the competitive commercial speed from there on, would it not?

Mr. MORSE. I think that your suggestion, Mr. Zelenko, would have the effect of nullifying any speed clause, and we might as well forget a speed clause.

Mr. ZELENKO. Is the purpose of the speed clause to put into operation the additional costs because of defense features, or is the purpose of the speed clause to have that point at the point where it is competitively commercial, that is the highest speed?

That is what I am trying to get at. What is the purpose of putting in this number?

Mr. MORSE. To charge for the commercial features in the vessel which are utilized by the owner.

Mr. ZELENKO. In other words, over this 30.7, you say it is no longer commercial. Then it gets into the defense costs that the Government is paying for.

Mr. MORSE. No; I do not say that at all. I say that the commercial speed that has been established is 30.7. If they want to operate this vessel at 35 knots, which they can do as indicated by the first voyage that they made where they averaged the west and east crossing at an average speed of 35 knots, if they want to operate a 35-knot ship, I think they ought to pay for a 35-knot ship.

Mr. ZELENKO. Then the 35 knots would become the commercial dividing line, would it not?

Mr. MORSE. That is right.

Mr. ZELENKO. Then I ask again, is the question of paying over 30.7 knots the line over which they must pay? That is what you say up to now.

Mr. MORSE. That is what I am proposing.

Mr. ZELENKO. Now, you have arrived at the 30.7 because you say that that is the commercial speed as worked out by an average?

Mr. MORSE. Yes, sir.

Mr. ZELENKO. I have one more question.

You have arrived at that average only from the voyages of the liner *United States* because that was the fastest ship and that would be the most competitive?

Mr. MORSE. That is correct.

Mr. ZELENKO. Now, we have this other vessel. Supposing they go along at 31 knots. What then becomes the commercial speed? Is it not 31 knots instead of 30.7 knots?

Mr. MORSE. Thirty-one knots might not be of any benefit to the United States Lines. They might not even bother to operate at that.

Mr. ZELENKO. I want to get a clarification of how you arrived at the commercial speed. It is the highest average of any vessel crossing the water over a given period of time; is that right?

Mr. MORSE. Yes; I would say that is right. I am not quibbling here. We want our people to be on a competitive basis. There is no question about that.

Mr. ZELENKO. If they have to pay over 30.7 knots and the average competitive commercial speed, let us say, is 32 knots, assuming the French vessel does that, then they cannot compete, can they, and that vitiates your thought?

Mr. MORSE. No, it does not vitiate my thought at all. All they would have to do is pay for it.

Mr. ZELENKO. I say once they pay for it, they cannot become competitive because it is costing them more to run the vessel than it is for the French to run theirs. The whole idea of the subsidy proposition is to keep them competitive. If they have to pay over 30.7 knots and the French one runs at 32 knots or 31, they cannot compete because it is costing them more to run their vessel.

Again, I am not arguing for or against the legislation. I want to get the philosophy behind your 30.7 figure.

Mr. MORSE. You are talking about the economics, not about the operation.

Mr. ZELENKO. That is what competition is. It is economics, is it not?

Mr. MORSE. I do not know just what your assumption is. Assume the French line operates at a loss at 32 knots. Then are you saying that they are not competitive at a 32-knot speed? As far as getting passengers is concerned, they are definitely competitive, irrespective of the economic results to the line.

Mr. ZELENKO. Is it then that the speed is not part of the competition?

Mr. MORSE. It is very definitely a part of the competition.

Mr. ZELENKO. That is my point. If it is part of the competition and you are selling speed besides accommodations and other things and it costs you more to run at a higher speed, that would affect the

competition in some way, would it, or would affect your ability to meet it?

Mr. MORSE. Certainly. It would cost more fuel cost to operate at 32 knots, too.

Mr. ZELENKO. That is the only reason that I wanted some more clarification on whether it is better to put in 30.7 or put in something along the line of "commercial competitive speed." It was a question of trying to clarify this because if competition is the basis or one of the bases for putting in 30.7 knots, then we have to look at what the competition is.

There is some competition coming along at a higher commercial speed now. I wanted to throw that open for some clarification because, if we draw legislation, we want to draw it with the least amount of misinterpretation or, let us say, a number of interpretations.

I am throwing this open now for thought.

Mr. LENNON. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, sir.

Mr. LENNON. In the basic design based on the first bid that you have, are you at liberty to say what the maximum speed of the new projected vessel would be?

Mr. MORSE. No, sir. It is in excess of 35 knots. We know it is 35 knots because the *United States* made a transatlantic crossing at an average of 35 knots.

Mr. LENNON. You say you are at liberty to say it would be in excess of 35 knots?

Mr. MORSE. It is classified as to what the maximum speed of the vessel is.

The CHAIRMAN. Have you finished, Mr. Lennon?

Mr. LENNON. Yes, that is all I want to know.

The CHAIRMAN. Mr. Robeson.

Mr. ROBESON. Mr. Morse, at what speed does the defense cost pick up?

Mr. MORSE. Twenty million dollars, roughly.

Mr. ROBESON. Do they pick up at 27 knots or 30.7?

Mr. MORSE. Under my proposal, we would be picking up all excess power above what would be required to operate at an average of 30.7 knots.

Mr. ROBESON. I thought the defense took care of the excess speed cost from the other part of the Government's subsidy of this cost, the high speed. I thought we talked about $40 million for defense features. I thought speed was among those defense features.

Mr. MORSE. Speed is included in the defense features.

Mr. ROBESON. Do they not determine that on some kind of formula where the speed becomes excess?

Mr. MORSE. To put it the other way around, if Maritime were establishing the construction subsidy rate on this vessel, we would say that the commercial speed is 28½ knots, or we would say it is 30.7 knots.

As I have previously indicated to the committee, my view is that the commercial speed is 30.7 knots. Then we would get bids as we did, or an estimate from the builders of what it would cost to build a ship designed for a 30.7-knot speed, and we would check it out in our own technical staff to verify that figure. Then the difference in

the cost of the powerplant of that ship, compared with the ship that is actually built, is the power which is picked up as national-defense cost. That is paid for 100 percent by the Government.

Mr. ROBESON. You see my point that the Government pays as a defense feature, I thought, the cost of the powerplant on a certain formula of some kind, so that beyond so much it was paid for by the Government as a defense feature. I wondered what they considered the excess speed.

Mr. MORSE. I thought I explained that.

The CHAIRMAN. Let me interrupt.

This discussion is eliminated in this bill because you have a fixed price and it was necessary to have this fixed price to ever get the ship, so that we are discussing something here that is not necessary in respect to this bill.

Mr. MORSE. That is correct.

The CHAIRMAN. I want to confine the discussion to this bill so that we can get through with it.

As to these other things, we will hold a hearing and discuss and ascertain what all these features are that come under the 1936 act. This discussion would come under the 1936 act.

Mr. MORSE. This discussion has arisen, Mr. Bonner, because I suggested that there should be a speed clause included in the bill.

The CHAIRMAN. Which carried a $47 million price.

Mr. MORSE. That is correct.

The CHAIRMAN. And the national defense features are something that will be worked out other than by the United States Lines, because they said $47 million and you may put in what national defense features you want.

Mr. MORSE. If you are saying, Mr. Bonner, that the United States Lines is free to use the vessel or will be free under your legislation to use the vessel at any speed they want, then all this discussion that I have been going through is useless.

The CHAIRMAN. I agree with your amendment. I think your amendment is pretty liberal.

Mr. ROBESON. Will the chairman yield?

The CHAIRMAN. Yes.

Mr. ROBESON. Then, as I understood, Mr. Morse was suggesting that you put in this bill 30.7?

The CHAIRMAN. That is right.

Mr. ROBESON. Then a speed of 30.7 knots does become part of the bill?

The CHAIRMAN. That is correct.

Mr. ROBESON. My point was that the Government has already taken care of excess cost in the defense features.

The CHAIRMAN. That is right.

Mr. ROBESON. But it is my guess that they accepted a lower speed than that.

The CHAIRMAN. Who accepted?

Mr. ROBESON. The Defense, in figuring what to accept. When the *United States* was built, they accepted a lower figure than that. Maybe they would have a higher one now. I do not know. I think there is a question as to your 30.7 knots.

Mr. DINGELL. Mr. Chairman, may I be recognized for a few questions?

Mr. ROBESON. That is all.

The CHAIRMAN. Yes.

Mr. DINGELL. What was the dollars-and-cents cost of the previous ship?

The CHAIRMAN. That is all in the record.

Mr. MORSE. $77 million.

Mr. DINGELL. Mr. Chairman, I am sorry. I was not here. I want to get this for my own information right now.

The CHAIRMAN. Yes, sir.

Mr. DINGELL. What was the dollar cost to the company?

Mr. MORSE. In my recollection, in round figures $37 million.

Mr. DINGELL. They say they are not going to build unless they get the vessel for $47 million. They cannot consider it unless they get this figure; is that right.

Mr. MORSE. That is correct, and I think that their economics of the thing is correct.

The CHAIRMAN. And the General Accounting Office has sustained that position. That is all in the record.

Mr. MORSE. Yes, sir.

Mr. DINGELL. All right. I have no further questions, Mr. Chairman.

The CHAIRMAN. I did not want to preclude you.

Mr. DINGELL. I understand it is in the record.

The CHAIRMAN. That is the reason we brought in the General Accounting Office, to ascertain whether or not the ability presented by the American President Lines and United States Lines could be lifted a little. We had to ask the General Accounting Office to make an audit.

Mr. DINGELL. I appreciate that.

The CHAIRMAN. They came in and told us that private capital could invest somewhere else and in all probability make more money than in this deal.

Mr. DINGELL. The only question I asked was what is the commercial speed fixed on the sister ship; 28 knots?

Mr. MORSE. I think it was originally sold as a 28½-knot ship, but then there was a lot of controversy and they paid an additional amount of dollars, so that I do not think anyone can say what speed it was actually sold at.

Mr. DINGELL. What would your best judgment be on that?

Mr. MORSE. It is my understanding that when the additional price added to the vessel was agreed upon, there was no indication of how much additional was paid for speed.

Mr. DINGELL. Could you give us a dollar equation here as to how much the additional dollars paid amounted to in speed?

Mr. MORSE. On the steamship *United States*?

Mr. DINGELL. Yes, sir.

Mr. MORSE. I do not think it is possible to do that. I will be glad to have the record checked.

Mr. DINGELL. I was wondering would it not be fair to state that they might be treated the same as to the existing ship and as to the ship that we are talking about constructing here. Would that be a fair statement, that they should be treated the same way on the ship they are about to construct as the one that is already in being?

Mr. MORSE. I do not know. I am not sure I understand what you have in mind, sir.

Mr. DINGELL. Would we not be consistent if we said we will give the same treatment on this vessel as far as defense features and speed as we did on the other ship?

The CHAIRMAN. Then you would never get the vessel built. It would be totally and wholly impossible. We are trying to replace a vessel that is becoming obsolete in 2 years.

Mr. DINGELL. I am talking about the existing sister ship; in other words, treat them the same on the ship they are talking about building as for the existing sister ship of that vessel, as far as speed and defense.

Mr. ALLEN. Would you yield?

I think they would snap it up if we would sell the ship at $34 million.

Mr. DINGELL. I am not talking about the dollar amount.

The CHAIRMAN. Of course you are.

Mr. ALLEN. They were able to buy the ship at $34 million. Now they want the same ship to earn the same kind of money and they offer $47 million.

Mr. DINGELL. I am not talking about the dollar sales cost. I am talking about the speed, the point at which speed becomes defense.

Mr. ALLEN. It is the same on both ships.

Mr. DINGELL. It is the same? In other words, 30.7 is the defense feature?

Mr. ALLEN. That was the settlement, that whatever they had that they paid so much money, and that is what they kept, and they were running 30.7.

Mr. DINGELL. This is precisely the point on which I am trying to tie Mr. Morse down.

Does the existing sister ship to the one we are talking about have the defense feature limit of 30.7 knots.

Mr. MORSE. There is no ceiling on the speed at which they can operate the vessel. There is no ceiling or no additional charge if they operate the vessel at 28½ knots or if they operate the vessel at 35 knots.

Mr. DINGELL. The fact that we are dumping so much Federal money in this project anyhow, would it not be fair to say we will just treat this vessel the same as we treated the other vessel as far as speed and defense features?

Mr. MORSE. If that is the wish of the committee, we will buy it.

Mr. DINGELL. I am not asking you to buy anything. I want your viewpoint.

Mr. MORSE. I am opposed to that. That is why I am suggesting that we should have a speed clause if the vessel is operated in excess of an average of 30.7.

Mr. DINGELL. Let me ask this, and I am not critical:

Would it be fair to say that this stand this morning is an admission of error on the part of the Maritime Administration as far as their previous handling of the defense feature speed concept?

Mr. MORSE. Not necessarily at all.

Mr. DINGELL. I am a little bit confused this morning, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. I do not want to cut anybody off.

Mr. DINGELL. That is all right.

The CHAIRMAN. I want to proceed if I can.

All right, Mr. Morse; go ahead.

Mr. MORSE. I have just one point on this question of speed with reference to APL. They are talking about a commercial speed of 26 knots, not only as to existing but also as to projected vessels.

If, for example, we should build for them a duplicate of the *United States* that vessel can be operated at 35 knots. If they operated at 35 knots and bought only a 26-knot ship, I think they ought to pay for it. That is how simply I approach this thing.

The CHAIRMAN. Are there any further questions?

Mr. Thompson.

Mr. THOMPSON. I have no questions, Mr. Chairman.

Mr. ALLEN. Mr. Chairman.

The CHAIRMAN. Mr. Allen.

Mr. ALLEN. May I ask a question on a little different subject?

The CHAIRMAN. Let us not get on another subject.

Mr. ALLEN. Getting away from speed a little bit, we have a provision in here projected that if the vessel earns more than 10 percent, we should recapture 75 percent of the profit rather than 50 percent.

I am wondering how we come out on that as an overall proposition. I have in mind that, if we recapture more, it reduces in some way or other the income tax that the Government does not get, which pays for the recapture.

Mr. MORSE. Yes, sir.

Mr. ALLEN. If we get another 25 percent, what difference does it make in the net dollars?

Mr. MORSE. In the absence of real inflation, I think that this 75-percent provision is meaningless, particularly for the United States Lines, because the projected earnings of this new ship would never permit it to earn 10 percent on capital necessarily employed in any event, but I think the provision in here is desirable and I think it would be helpful in selling the bill to the Congress to indicate that these people are not going to be able to make a gold mine out of this operation.

Mr. ALLEN. Thank you, Mr. Chairman.

Mr. MORSE. The overall result to the Government, I think is tweedledee and tweedledum, whether you pick it up as taxes or whether you pick it up as recapture.

Mr. ALLEN. I have one other point.

We have now these 2 bills for 2 ships. We have in prospect two more ships under bills introduced, and possibly a third additional ship that will be somewhat unusual. Should the committee at this time approach this whole problem, including the present two, on a basis to establish a set of principles under which we could make these decisions, or should we take it by individual ships and bills?

Mr. MORSE. I would be inclined to take it by individual ships, because I think the problems will vary from company to company.

Mr. ALLEN. Is that not almost saying that if we get some kind of a single law for all of them that it will have to be so flexible that each problem will be an individual problem anyway?

Mr. MORSE. We have given a lot of thought to trying to come up with a bill which will apply across the board, but we find it very difficult to do so.

Mr. ALLEN. Thank you, Mr. Chairman.

Mr. ZELENKO. Mr. Chairman, one question.

The CHAIRMAN. Mr. Zelenko.

Mr. ZELENKO. Part of the $47 million price, as I understood it at the hearings, was conditioned upon the idea that the *America* could be traded in or sold for $10 million. That is the basis of the United States Lines saying they could pay $47 million.

Now, is that figure of $10 million one that has probability? That is, that $10 million could be received for that vessel. What I am trying to get at is if one of the conditions of the $47 million is that they get $10 million for the *America*, and they might not get it, how would that affect the proposition as a whole?

Has any thought been given to that?

Who would supply the difference if they could not get $10 million?

Would that cost the Government additional money, or what happens to that?

Mr. MORSE. I am glad you brought up that problem.

We have in our own shop technical people who work on this question of valuation of ships. In addition to the valuation which they have come up with, we have purchased valuations from expert ship brokers: Jacques Pierot, Frank Martin—they are both American firms—and Hone, Maton & Co., which is a very well-known London firm.

Their figures would vary a little bit, but in round figures it was between $9 million and $9¼ million as being the world market value for the steamship *America* today. That will fluctuate. If good times come along, you will get a better price for it; but our thinking is that we cannot pay $10 million for the ship on a trade-in basis.

Mr. ZELENKO. You cannot?

Mr. MORSE. We cannot.

Mr. ZELENKO. Would it be part of your contract, assuming that the legislation went through, that this $10 million trade-in is one of the conditions for the $47 million price? That is what I want to know, because we have heard so much about that from General Franklin.

He said:

Our bid of $47 million is conditioned upon the fact that we can get $10 million for the *America*.

Do you contemplate putting something into the proposed contract in the event, let us say, that they cannot get $10 million? Let us say they got $8 million. Who would make up the difference of $2 million? Would that be the Government? Would that vitiate the contract?

I think that is a very important part of this legislation, because the point was made to us time and time again. Suppose they got $11 million for it? Has any thought been given to that?

What happens if the $10 million figure is exceeded or not reached? That is what I want to know. Will that kill the whole deal, or what will be done about it?

Mr. MORSE. If I am to accept General Franklin's statement at face value, we would not proceed with this ship if he got less than $10 million.

On the other hand, Maritime would be subject to censure if we pay a value in excess of what we can justify as being the fair market value of the vessel, so that I think, since our views of the fair market value

are less than $10 million, I think this problem can be resolved only by the Congress, or, alternatively——

Mr. ZELENKO. Again I am not talking on the merits. I am talking on what I heard here. I think that was emphasized by General Franklin a number of times. He said:

> One of the conditions for the $47 million figure is that we get $10 million for this ship.

I do not want to do anything futile and go ahead with this thing unless we have this point resolved. I think this is a good time to go into it.

Mr. MORSE. I think this is a very important point, and the only alternative that I see is to permit the sale of the vessel foreign.

The CHAIRMAN. That is in your jurisdiction.

Mr. MORSE. Well, I have heard comments from, I believe, you, Mr. Bonner, saying you would like to have some consideration given by this committee before we authorize the sale of this vessel foreign.

The CHAIRMAN. Heretofore, all along up to now, you have claimed that prerogative; have you not?

Mr. MORSE. Under the statute, I, as Administrator, can, with the concurrence of the Department of the Navy, authorize the sale foreign.

The CHAIRMAN. And you could permit this ship to transfer to a foreign, friendly flag, and it would bring a higher price than it would in a domestic price?

Mr. MORSE. That is correct.

The CHAIRMAN. It was anticipated, I imagine, that it would bring $10 million operating under a foreign, friendly flag.

Mr. MORSE. General Franklin has indicated to me that he thinks he would have no difficulty getting $10 million or more for the vessel under foreign flag, even with the restrictions on the use of the vessel that would be normally put on by Maritime.

The CHAIRMAN. Therefore, since you have been exercising that prerogative yourself, I did not think that you would come in here. I thought you would go to General Franklin to work out that proposition.

Mr. MORSE. I want to remain on a friendly basis with this committee, Mr. Bonner.

The CHAIRMAN. I am sure you will.

Mr. GROSS. Mr. Chairman, if I may.

The CHAIRMAN. Mr. Gross.

Mr. GROSS. You can authorize the sale of this ship foreign. Can you deny the sale or stop the sale of this ship foreign?

Mr. MORSE. Yes, sir. On your trade-in values of cargo vessels, we have the same authority over them. We can refuse to permit them to transfer foreign, but, in fairness to those people, in fairness to owners, the people who own these cargo vessels, we have been accepting them on a trade-in basis at what we called a restricted world market value, even though that restricted world market value is in excess of the domestic price.

Mr. GROSS. Do you not anticipate that the Government is going to pay $10 million for the *America?*

Mr. MORSE. Unless I get different figures, we will not pay $10 million.

Mr. GROSS. If it is put in at $10 million under this transaction, the Government will wind up owning.

Mr. MORSE. What I am saying is that it will not be put in at $10 million unless I get different figures from our evaluation committee.

Mr. THOMPSON. Will the gentleman yield?

Mr. GROSS. I will be glad to yield.

Mr. THOMPSON. Mr. Morse, considering that the bona fide offer were made by some foreign concern for the ship at a price in excess of $10 million, and at that time you denied the authorization of the sale and would not allow it to be sold foreign for that price in excess of $10 million, then how could you indicate through your actions that the ship was not worth, as a fair market value, $10 million? Suppose that situation would arise, what would be the result?

Mr. MORSE. I could not.

Mr. THOMPSON. Then you would have to accept $10 million as a fair market price?

Mr. MORSE. Yes, sir.

Mr. THOMPSON. Although you do not accept it now?

Mr. MORSE. Correct.

Mr. ZELENKO. I have one more question.

I still want to get down to my very point that it was emphasized that they have to get $10 million. Suppose they get $8 million? Has any thought been given as to who is going to make up the difference, or whether this thing is going to fall apart? That will be long after we pass any legislation. That is why I want to know whether you have given thought to that.

These people say they cannot go ahead unless they get $10 million. I would not want to see us get stuck for $2 million in the future, saying, "Look, you passed legislation and then these people cannot go ahead." I think you ought to let us know about it now.

Mr. MORSE. Mr. Zelenko, I have a lot of power under the 1936 act, but I do not have unlimited power to pay any mount I want to for trade-in vessels. I am limited by the statute to taking into consideration three factors: The world market value, the domestic value, and the scrap value.

Mr. ZELENKO. I realize that.

Mr. MORSE. But under no circumstances may I pay in excess of a fair and reasonable price.

Mr. ZELENKO. You have just told us that your estimates from your experts were at some $9 million. We have heard they cannot go ahead unless it is $10 million.

I want to know, are we wasting our time until you folks resolve that. These folks say it has to be $10 million or they cannot go ahead. You say, "The way I look at it, it is only $9 million."

That means that the deal cannot go ahead.

What are we doing here unless that is resolved between you and the United States Lines?

I am not saying you can authorize it. I am saying you have not had a meeting of the minds. The figure is only $9 million. You can decide if you want to sell it foreign. In other words, it is a nebulous figure.

I thought that that $10 million was something that was sort of firmly agreed on.

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I do not mean in writing, but these folks have said, "Unless we get $10 million, we cannot go ahead with the deal."

You say they cannot get it. I want to know whether we are wasting our time.

Mr. MORSE. What I am saying, Mr. Zelenko, is that unless I can substantiate to GAO the price paid for the ship, I am subject to criticism and should be subject to criticism.

Mr. ZELENKO. This has nothing to do with criticism. It has to do with spending your time and our time. These people say $10 million, and you say $9 million.

Part of the whole deal is contingent on your getting $10 million. Is that not premature until you come to some meeting of the minds, or they have decided to revise their figures on the basis of $9 million?

They say they cannot go ahead. Why spend our time going ahead with legislation unless we get somewhere on this point? They say that is a condition, and I assume that is a part of the contract.

Mr. MORSE. Under existing law, I must determine a fair and reasonable price, or I cannot pay it. You gentlemen will have to give me authority to pay $10 million. That is the net result.

Mr. ZELENKO. Does it not mean that we have to then put the Government on the hook for $1 million or $2 million? That is what I want to know. I want to know where we stand.

The CHAIRMAN. Let me ask Mr. Morse whether, in his opinion, this vessel operated under what is now recognized as a foreign friendly flag would bring $10 million.

Mr. MORSE. We have employed experts on this thing to answer that question for us, and they have said that the world market value is $9,200,000.

The CHAIRMAN. Well, when you say world market value, you are talking about selling it foreign.

Mr. MORSE. Yes, sir.

The CHAIRMAN. We would not want to sell this ship foreign; would we?

Mr. MORSE. I would much favor having it remain under American flag.

The CHAIRMAN. As I understood, it is the thinking of the United State Lines that the ship operated under a foreign flag would bring $10 million.

Mr. MORSE. That is their thinking; yes, sir.

The CHAIRMAN. It is my thinking that two capable men like you and General Franklin can iron out this proposition.

Mr. MORSE. No, Mr. Bonner, I am not going to get into bed with General Franklin on the question of value of this ship.

The CHAIRMAN. We are talking about the value under certain operating conditions, and the ship remaining accessible to the defense of this country.

Mr. MORSE. Mr. Bonner, we get expert opinions from ship valuation experts. They say to us that the highest price that this vessel will receive, selling anywhere in the world, is $9,200,000. I cannot justify to GAO paying $10 million for the ship.

The CHAIRMAN. Of course, I am not arguing that point, but we will get to this. If they could get $10 million under a foreign friendly flag, you would not be opposed to it?

Mr. MORSE. No, sir.

The CHAIRMAN. Now, General Franklin, you step up here a minute.

Mr. LENNON. Mr. Chairman.

I understood you a minute ago to say that it would be much more in the public interest if this particular ship remained under the American flag, in your opinion, rather than being turned over even to a friendly nation; or, to put it another way, you said you would much prefer this vessel remain under American flag.

Mr. MORSE. I think so; yes, sir, because it would be in competition with other American-flag operators in some area.

Mr. LENNON. Would it be to the interests of our Government to pick up the tab of the difference between the world fair market value and the $10 million?

Mr. MORSE. I think so.

Mr. LENNON. You think it would in order for it to be under American flag. The vessel cost $70 million about how many years ago?

Mr. MORSE. Eighteen years ago.

Mr. LENNON. I think that is something we ought to think about.

Mr. GROSS. Not only that, Mr. Chairman, but if we sold American we would probably get dollars for it, and if sold foreign we would probably get washers for it.

Mr. CLARK. Or you would get your own money back.

STATEMENTS OF GEN. JOHN M. FRANKLIN, PRESIDENT, AND RAYMOND M. HICKS, EXECUTIVE VICE PRESIDENT, UNITED STATES LINES—Resumed

The CHAIRMAN. Now, General Franklin, the Maritime has established a policy of letting ships go foreign, and have said that they are still available and more available to the national defense in operation than a ship in the reserve fleet. Now, that is a matter of record here.

What has been your experience in negotiation for the *America* to be operated under a friendly foreign flag?

General FRANKLIN. We have an offer of $8½ million for the *America* for delivery when the new ship comes into service. That is not in writing. It is the first offer and it is my opinion that we can sell the *America* foreign tomorrow for delivery 3 years from now for $10 million or more, but I would like to have it understood, Mr. Chairman, that there is a lot of difference between talk and a contract.

To go back to Mr. Gross, I think his point is very good. I think the ship would have to be run between Canada and Europe or this country and Europe in order for her to make any money under a foreign flag, or possibly between the Mediterranean and South America, so I think we could always libel the ship if we did not get our money.

The CHAIRMAN. Are you concerned about the discussion that has arisen here with respect to the value of the *America?*

General FRANKLIN. Yes, I am concerned about it. However, I am not at all sure that the Martime Commission, Mr. Morse and ourselves cannot work that out. It would be a whole lot better if you put in the

bill "the foreign market price for this ship will be fixed at ten million dollars."

That is up to you, gentlemen. I agree with Mr. Zelenko that it is too bad to go through all this work and then have this thing fall apart because we cannot come to an agreement.

The CHAIRMAN. He has come up to $9,250,000.

Mr. MORSE. Mr. Bonner, when we have accepted cargo vessels for trade-in, we have paid 10 percent less than the world market value on the premise that the restriction which we would impose on a foreign transfer has the result of reducing the world market value about 10 percent.

Therefore, we are saying that for this vessel the trade-in value would be $8,280,000 on the valuation we have received to date.

The CHAIRMAN. I thought you said $9,200,000.

Mr. MORSE. $9,200,000 was the world market value. The restricted world market value, with the restrictions we would have, would result in $8,280,000.

The CHAIRMAN. Are there any questions?

Mr. DINGELL. Mr. Chairman, could I be recognized?

The CHAIRMAN. Yes.

Mr. DINGELL. Mr. Morse, the world market on ships fluctuates very substantially, according to time and the amount of carriage, does it not?

Mr. MORSE. It certainly does.

Mr. DINGELL. If I remember, I saw an article in the papers that indicated that the present world market is substantially down, is that right, on vessels?

Mr. MORSE. That is right. That is particularly true of tramps and tanker vessels. Liner vessels do not fluctuate very much.

Mr. DINGELL. Would it be fair to say, then, that we ought not to take any action here to anticipate fluctuation in the value of the *America* in our considerations of the amount that should be paid as far as trade, because we may find that it will be up or down $1 million, or maybe $2 million, over this 3-year period.

Would that be a fair statement?

Mr. MORSE. No, I think that you cannot rely on that because, as I recall, under the statute the trade-in price has to be established at the time the contract for the construction of the vessel is entered into. We are talking about signing a contract within the next 6 months.

The CHAIRMAN. I want, if you permit me, to have read at this point in the record testimony of Admiral Wilson on this question.

Mr. DINGELL. Certainly.

Mr. DREWERY. This is on the question of passenger-type ships under the American flag:

Of utmost significance in this connection is that the United States must be prepared for emergencies other than all-out war and a NATO war. We have interests in many areas of the world that fall outside the NATO sphere of planning.

We must also recognize that under various circumstances which might arise, the policies and views of the United States would not necessarily coincide with those of our many allies in each and every crisis. The lessons of history have taught us that, as a matter of fundamental policy, our primary reliance must continue to be placed on capabilities under our direct control.

Present planning indicates that by accommodation of employing active passenger-type vessels and activating additional ships from the national defense

research fleet, we could meet our minimum needs for troop transport in the event of general war. We have enough ship space to provide the required initial lift.

This determination is valid, however, only on a quantitative basis. Unfortunately, the majority of our ships are old. Most of them are deficient in speed and lacking in other features that are important in minimizing the hazards of moving troops by sea. The use of many of them under modern war conditions would involve a high degree of risk which can be significantly reduced by the construction of modern high-speed ships.

America's active and reserve inventories of passenger-type vessels add up to a total of 156 actual ships, ranging in age from 5 to 30 years. Of these, 56 ships are limited to a top speed range of 15½ to 16½ knots, of an average age of 14 years, and represent a combined emergency capacity for about 56,000 troops.

Sixty-one ships have a top speed range of 17 to 17½ knots, average age of 15 years, and a combined emergency capacity for about 163,000 troops.

There are three ships of 18 knots that are 30 years old and have a combined emergency capacity for about 4,000 troops.

We have 24 ships in the 19-knot bracket, including 16 MSTS transports which can do 20 knots in a pinch.

However, to call them 20-knot ships would be stretching a point. They have an average age of 13 years and a combined emergency capacity for about 81,000 troops.

Deduction leaves 12 actual passenger-type ships that are capable of 20 knots or more. They represent a combined emergency capacity for about 33,000 troops, but 5 of these ships are over 25 years old and are lacking in several defense features.

In fact, our existent, actually modern troop lift potential amounts to only 6 ships, 3 converted 20-knot Mariners, the 25-knot *Constitution* and *Independence*, and the 33-knot *United States*, which add up to a total emergency capacity for about 14,000 troops, enough for one streamlined division.

Ships under construction include 2 passenger vessels for Grace Lines and 2 for Moore-McCormack Lines. As with the converted Mariners, they meet the minimum speed requirements for modern troop transport.

The 4 ships will provide a total emergency capacity for about 5,000 troops. These ships do include many improved design features, and they will contribute appreciably to the quality of our total trooplift.

This was Admiral Wilson's comment on the ships that are presently available under the American flag to meet requirements which should be met by ships under the American flag.

May I ask a question?

The CHAIRMAN. Mr. Counsel.

Mr. DREWRY. Mr. Morse, in view of Admiral Wilson's testimony, have you given any thought to the desirability or possibility of meeting this question as far as the money angle is concerned by disposing of some of the older ships to bring in an amount that would make it possible to keep the *America* under the American flag and still proceed to get the new ship built?

Mr. MORSE. As I see it, Mr. Counsel, whether we dispose of other vessels has no material bearing on this particular question.

Mr. DREWRY. This particular question, as I understand you and as I understand the law, is that the maximum amount that you feel that you can allow is the world market value.

Mr. MORSE. That is what the statute says.

Mr. DREWRY. That is what the statute says. At least it says you take this into account.

Mr. MORSE. I may not exceed a fair and reasonable price, taking into consideration these three factors.

Mr. DREWRY. Well, are you precluded from taking into account other factors?

Mr. MORSE. Well, I would have to look at the section again. As I recall, it specifies those three factors that are to be considered.

As a suggestion, Mr. Bonner, assuming the Congress enacts this legislation, I would be willing to pay the world market value on a trade-in without a deduction of this 10 percent which we apply on cargo vessels, on the premise that this is a special situation as indicated by being special legislation, and therefore we can treat the traded-in vessel as a special situation so that, therefore, what I am saying is that on a trade-in basis under our present information we could pay $9,200,000, assuming GAO concurs.

Mr. DREWRY. Section 510 (d) of the 1936 act reads:

> The allowance for an obsolete vessel shall be the fair and reasonable value of such vessel as determined by the Commission. In making such a determination, the Commission shall consider—
>
> (1) Scrap value of the obsolete vessel, both in America and in foreign markets;
>
> (2) The depreciated value based on a twenty-year life; and
>
> (3) The market value thereof for operation in the world trade or in the foreign or domestic trade of the United States.

It is not clear to me at the moment from that reading that you are precluded from considering other factors which might enter in.

Mr. MORSE. I have never checked out with General Accounting Office whether we may pay a value higher than any of those three items. I will be glad to do so, but my offhand impression is that they will say we may not pay a value higher than arrived at considering those three factors.

General FRANKLIN. May I interrupt, Mr. Chairman?

You gentlemen are all busy and in a hurry. We have tried our utmost all through these conversations not to be captious. I have absolute confidence in Mr. Morse. If Mr. Morse says he can pay $9,200,000 and may be able to pay something more, somewhere between $9,200,000 and $10 million, I am satisfied we can work it out.

The CHAIRMAN. That will stop this discussion.

Mr. DINGELL. Does Mr. Morse say that, though.

Mr. ZELENKO. That is the point, Mr. Chairman.

I will yield to Mr. Garmatz. I thought the chairman asked me a question.

Mr. GARMATZ. There is roughly $800,000 difference. Are there not so many other features and advantages, and you might use the word "defense" like you use the word "miscellaneous," because it covers so many things.

How can you quibble when you have a $10 million deal for approximately $8 million. If you want to put it all into defense, I am sure it can be worked out.

The CHAIRMAN. I think that these two gentlemen can work it out. Let us leave the question to these two gentlemen.

Mr. THOMPSON. May I ask one short question?

The CHAIRMAN. Yes.

Mr. THOMPSON. Why is the figure $10 million in the legislation at all then?

Mr. MORSE. It is not in the legislation.

The CHAIRMAN. The United States Lines says they can pay so much if they get $10 million for the ship.

Mr. THOMPSON. Now it can be modified?

The CHAIRMAN. We cannot load this bill down to where we cannot get it by the House. That is all there is to it.

Mr. ZELENKO. I do not think we should. That is part of Maritime's work, not ours.

The CHAIRMAN. I think we have reached a solution of this question and should drop the question and leave it to these two gentlemen.

General FRANKLIN. If I may, I would like to discuss this question of speed. It will take a few minutes.

Mr. MORSE. I have one comment, but I can wait.

General FRANKLIN. You may finish.

Mr. MORSE. The comment is that I want to call to the committee's attention, and General Franklin's attention, that if they utilized the *America* during the period when the replacement is being built, they have to agree to a use charge.

The CHAIRMAN. He has agreed to that.

General FRANKLIN. Of course, that is a matter of negotiation. We have agreed to pay for the use of the ship.

The CHAIRMAN. You have already agreed to that. You understand that that has to be done?

General FRANKLIN. We have to negotiate on what the charge is. There are a lot of things that have to be worked out in good faith between us.

Mr. GARMATZ. Will the chairman yield?

I think you are on the way to progress.

The CHAIRMAN. What is your other observation, General Franklin?

General FRANKLIN. Has Mr. Morse finished? I would like Mr. Morse to stay, however. I have a very high regard for Mr. Morse and I think he has done a splendid job, both from the Government point of view and the viewpoint of the Chairman of the Federal Maritime Board. He and I have been arguing for a year on this speed question, and we have not come to any agreement. I do not think we can. He is entitled to his opinion and I am entitled to mine.

I would like to give you gentlemen my reasoning on why I am opposed to any limitation on the speed of this new ship if built. In the first place, our proposal is to buy a sister ship to the steamship *United States* for $47 million. There is no limitation on the speed of the steamship *United States*.

The testimony at this hearing is replete with the facts that show, without peradventure of doubt, and substantiated by the Comptroller General, that if we pay $47 million for this ship, even if we get $10 million for the *America*, that we are going to make, as far as the figures show, a very small return on her. We have agreed to all the conditions. We have tried not to be captious.

We agree that we have to pay some charter hire on the *America* while the other ship is being built, and we agree on the 75 percent recapture.

We have tried to go along on all items so that we could get something done. We are as anxious to see the ship built as you gentlemen are.

I am absolutely opposed to any limitation on her speed. That is just an additional burden which I do not think we should be asked to bear. It is tough enough to operate these big ships anyhow. We should not be having to figure out, "Well, if we go a little faster with the ship, it is going to cost us so much money." That is not our original proposal and we are opposed to it, and I think it is unsound operation.

I would not like the publicity in connection with it. I think it would put us at a disadvantage vis-a-vis the Cunard and the new French ship.

None of us knows what the competition is going to be in the future and it is my experience that when an agreement is made between the Federal Maritime Board and a company, the United States Lines, that sometimes we both wish we had not made the agreement, but then we cannot get out of it because it is written in the contract. So I would like to make it clear, if I have not done it yet, that I am absolutely opposed to a speed limitation.

The CHAIRMAN. Now let us see. You did not have any speed limitation on the *United States* for which you have to pay?

General FRANKLIN. No, sir, and the ship that we have told you we will pay $47 million for was a ship in our thinking certainly, and it still is a ship according to our proposal, without any speed limitation on her at all.

The CHAIRMAN. Suppose you leave that question for the committee to decide when we go to executive session.

Mr. ALLEN. May I ask one question?

The CHAIRMAN. Yes.

Mr. ALLEN. General, while Mr. Morse was testifying concerning that provision in excess of the power necessary to maintain an average speed of 30.7 knots, I wrote down a little memorandum of a possible amendment which would make it read:

> In excess of the power necessary to maintain an average speed equal to the speed of its fastest competitor.

Would that be the speed you would be using, or do you want no limitation at all?

General FRANKLIN. Mr. Allen, I want no limitation at all because even under that amendment, which is better—and I think that makes it easier if we had to accept any—that, as you can easily see, would cause considerable argument, and we must get into our minds that it is not a question of half a knot or a knot at sea; it is a question of time of arrival and a proper schedule.

We might have to run this ship, and I am sure we will have to run this ship or the two ships, alternating in all probability, up to Bremerhaven. I just think that it just complicates the operation.

I think the principle is wrong and I do not see any necessity for putting that additional burden on us, and I just think it would be a terrible mistake to put any speed limitation on the ship at all.

Mr. THOMPSON. Would the gentleman yield?

Mr. ALLEN. I yield.

Mr. THOMPSON. Are you not in effect paying for the additional speed by the terrifically increased operational costs when you exceed the speed?

General FRANKLIN. That is a very good point.

I think I testified that because the *United States* has 2 enginerooms, 2 wheels working from 1 engineroom and 2 wheels from the other engineroom, that the cost of operating the ship is considerably higher than it would cost to operate a ship with 1 engineroom.

Mr. THOMPSON. So the tendency is to operate at a lower speed commensurate with schedule?

General FRANKLIN. We have that around our neck anyhow.

Mr. ZELENKO. So, to sum up, you cannot put a ship in operation and legislate your ability to compete?

General FRANKLIN. I think that is well put.

The CHAIRMAN. Mr. Counsel.

Mr. DREWRY. General, on this general subject, am I correct in my understanding that the problem is met under subsidy agreements by an agreement as to minimum and maximum sailings and the particular schedules, what the turnaround will be? That is part of your agreement with Maritime?

General FRANKLIN. Yes, sir. We have to submit our schedule and it has to be approved by the Federal Maritime Board, but the Federal Maritime Board have been very good about it. They have approved our schedule, which looks to us to be the best schedule to make money.

Mr. DREWERY. My point is, is that not the way that the question of speed is determined?

You cannot make, let us say, a 3-day crossing as a matter of routine unless you have their approval, can you?

General FRANKLIN. Well, we have to make up our schedule. We have to make up our schedule and it has to be approved by the Federal Maritime Board.

Mr. HICKS. We are required to operate a certain number of voyages per year with each of our ships on all of our lines. That is true of the *United States*. That is true of the *America*.

We submit our schedules every month to the Federal Maritime Board for approval. There are a certain number of days we know we have to be in port to maintain the ship. All of it, our port time and sea time, is all approved ahead of time by the Federal Maritime Board.

Mr. DREWRY. That is my point. Does not that control the type of ship you need rather than the precision down to a fraction of a knot?

Mr. HICKS. You are right.

Mr. DREWRY. You are supposed to render a particular service.

Mr. HICKS. That is right.

Mr. DREWRY. Then in addition to that service, the Department of Defense says, "We want a ship that will go so fast so that you have more power in there," but there is nowhere in the existing law a place that pinpoints it down to a fraction of a knot of power. The minimum and maximum sailings and the schedules that are approved dictate the type of ship that you have on the route, and also, in general, put a general limit on the speed and other facets of operation?

Mr. HICKS. Our contract on the *United States* does not call for any particular speed, but calls for a certain number of voyages. In the wintertime you have to run slow, and in the summertime you can run faster.

Mr. MCINTOSH. Mr. Chairman.

The CHAIRMAN. Yes, sir.

Mr. MCINTOSH. General, as I understand the concept of the Federal Government paying as a defense cost the power to attain an excess speed, it is that that is put there not for competitive liner operation but as a reserve high speed troop transport. Coming back to Mr. Morse's position, if the speed that you want to use as a competitive liner

is 36 knots or 35 knots, how can we classify part of that speed as a defense cost?

In other words, if we want a 41-knot liner, we pay the 5 extra knots and you pay the 36, which I think sums up Mr. Morse's position.

General FRANKLIN. I think that I can understand Mr. Morse's reasoning, but this is a different case, it seems to me.

What we have said is we will pay $47 million for a sister ship to the steamship *United States* and be free to run her at whatever speed we think is the right speed at which the ship should be run to make money. Now we have put right frankly in the record the results of the steamship *United States*. That is the best measure of determining what a new ship can make.

It is perfectly obvious that you can make very little money with her even though you use all her effectiveness, and therefore we say, "Please don't hamstring us any further."

Now, if the testimony showed that the ship was going to make a tremendous lot of money, that would be a horse of a different color, but do not hamstring us any more. We are going to have a tough enough time as it is.

Mr. MCINTOSH. Frankly, we are dealing with public funds where there has to be some rationale of explanation of why we pay your line or any other line substantial funds as a subsidy on a liner, and on the basis on which you are presenting this to us, it would mean, as far as I can see, that every time the Government subsidized any merchant ship, it would be on a basis of an offer from a man, "If you want this ship built, I will put up $10 million and you put up whatever you want."

I do not think you can put the approach you are taking into a formula at all, though I think from my standpoint on a take-it-or-leave-it offer, we are willing to discuss it on that basis. If your proposition does not make sense to us, you are not committed at this time; are you?

General FRANKLIN. No, sir.

Mr. MCINTOSH. This bill, in effect, is an offer to you which is shaped to some indication that you might be willing to do it.

General FRANKLIN. I certainly consider that the United States Lines is morally committed to proceed on the basis that you gentlemen have been sitting here all this time and we have an excellent record on the subject, and certainly the United States Lines will proceed on the basis that we have outlined.

Mr. MCINTOSH. I mean that you are in no way legally bound to commit your company if the terms of this bill are not workable, in your own opinion?

General FRANKLIN. I think that is correct, but if the bill is drawn and passed makes it possible for us to build a ship on the basis that we have outlined, then I say we are morally committed to go ahead.

Mr. MCINTOSH. I have no further questions.

The CHAIRMAN. Thank you, General.

Let me ask Mr. Poole to come up.

You gentlemen are asking for the same treatment that is accorded to the United States Lines; is that right?

STATEMENTS OF NOAH M. BRINSON, VICE PRESIDENT, AND ARTHUR S. POOLE, VICE PRESIDENT, AMERICAN PRESIDENT LINES—Resumed

Mr. POOLE. Yes, sir.

The CHAIRMAN. So to expedite this matter, are you willing to leave this matter now in the hands of the committee?

We will give you the same treatment accorded to the United States Lines.

Mr. POOLE. Yes, sir.

Mr. BRINSON. May we add one comment to that, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. BRINSON. The big problem here is a question in our case of paying 45 percent of the escalation. That may run up to millions of dollars.

We think, to place us on equal footing in the two oceans, we should also be relieved of paying 45 percent of that escalation, whatever it might be. If it is higher, of course, the Government picks it up. If it is lower, the Government benefits.

In other words, we feel that that is an item that should be removed, deleted there, if we are going to be put on equal footing.

The CHAIRMAN. That does not come into our picture if you are on the same basis.

Mr. BRINSON. He says:

Provided, however, That such price shall be increased to reflect forty-five percent (one), escalation (two) of any additional cost of construction other than national defense features—

Et cetera.

Mr. DREWRY. That is on the 45 percent calculation rather than on the fixed price calculation; is that correct?

Mr. BRINSON. Well, the 45 percent would be the cost to the low bidder plus the escalation.

Mr. DREWRY. We are talking about putting you on the same basis as the United States Lines, which would be a fixed price basis.

Mr. BRINSON. Well, a fixed price would take care of it, but not the 45 percent that Mr. Morse proposes here for escalation.

Mr. MAILLIARD. Mr. Chairman.

Are we not in an awkward situation as far as fixed price is concerned, when we do not have a firm bid? Are we not guessing?

Mr. BRINSON. I think we might state there that the General Accounting Office has based their calculations on estimated earnings on the $34,200,000 as the price of the vessel. That is when you get to the economics of it.

Mr. POOLE. Mr. Mailliard, the $47 million price, as I understand it, is looked upon as a percent of $105 million, which is the cost of the commercial ship. The 26-knot ship that we propose as the commercial ship would cost $76 million. Both of those are estimates. There is no difference in the situation.

In other words, I think there has been unintentionally injected confusion about the situation.

There is a bid on the sister ship to the *United States*, but it is not the bid on which the price is based. In their case and our case there are estimates. The $105 million is an estimate which has been arrived at in consultation with a shipyard. I do not know whether a shipyard has been consulted with the $76 million, but at least they are alike. They are both estimates.

Mr. MAILLIARD. Mr. Chairman, could I address that question to Mr. Morse as to whether he would see any difficulty in trying to put APL on a fixed price basis?

Mr. MORSE. Yes, sir.

Furthermore, I think they are straining at a gnat. They are getting a good price, a good proposal proposed by this committee, and they are quibbling over dollars, in my book. We did not have a solid basis on which to make an estimate of what the ship would cost. We made an estimate of $76 million, which is just a very general estimate. It was not priced out accurately and we do not have a bid from the shipyard, so that we think it would be improper at this time to name a price which does not necessarily have any true relation to what the price cost will actually be.

If you want, we will endeavor to work out an accurate detailed estimate of what the ship will cost. Our rough approximation of $76 million was not a detailed estimate.

Mr. MAILLIARD. How long will it take to get a bid?

Mr. MORSE. We only got their final plans and specifications for the ship within the last few days.

Mr. DINGELL. But you have not had time to study them yet?

Mr. MORSE. We have not begun to have time to study them.

Mr. DINGELL. That was not a hostile question.

Mr. MORSE. None of the questions asked me are hostile.

Mr. MAILLIARD. I think we would like to give equal treatment, but I do not think we want to do something that will not stand up on an equal basis. That is what bothers me.

Mr. MORSE. That is the reason we felt it undesirable at this time to have a fixed price on the APL ship.

The CHAIRMAN. Do you have anything further to say, Mr. Poole? We are trying to give you the same treatment and I want you to get the same treatment.

Mr. POOLE. If I were to make comments, I would make comments a good deal the same as made by United States Lines, and there is no need, I think, to cover the same ground.

Our feeling on speed is similar to that of United States Lines. Our views on the other matters run so close to theirs that I see no reason for restating them.

The CHAIRMAN. Well, do you disagree with the proposal made by the General Accounting Office?

Mr. POOLE. In general, I think it was a good proposal. I think that the amendments that have been suggested were necessary amendments.

The CHAIRMAN. And the amendments that have been contemplated here this morning would apply to you?

Mr. POOLE. Yes, I assume so.

I do have one suggestion, and that is that in the Maritime Administration suggested changes, they have omitted, for reasons which are not apparent to me, certain costs that go into the cost of a ship such

as inspection and plan approved, which is a sizable item in the construction of a ship. It is an item that goes into a ship when you build it under the 1936 act.

I do not know why they did not include in the price of the ship all the same items that go into a ship under the Merchant Marine Act of 1936, with the single exception of construction interest.

We have both agreed to take construction interest as an added item. The other costs ought to be in there.

The CHAIRMAN. Do you have a comment?

Mr. MORSE. That was an oversight on our part. We have no intention of treating them any differently than the United States Lines.

The CHAIRMAN. All right. Then I think we have reached a solution of your problem.

Mr. Garmatz.

Mr. GARMATZ. Do you have speed problems with your ship? Are you limited or do you pay an extra amount?

Mr. MORSE. We will give them the same thing we decided on for the United States Lines.

Mr. BRINSON. We agree with John Franklin, Mr. Garmatz, that we would like to have no speed clause naturally.

However, the lesser of the evils would be a speed clause limited to our foreign competition. You establish your commercial speed at 26 knots and then we would like to build a ship so that we could meet any competition during the life of that ship.

Obviously we feel that it would be wrong to pay for an increase of operation over the 26 knots of whatever is necessary to meet foreign competition.

The CHAIRMAN. You are asking for a 26-knot speed?

Mr. BRINSON. We have suggested a commercial speed of 26 knots, yes, Mr. Chairman.

Mr. MAILLIARD. Mr. Chairman, we do not know what speed the ship will be built for, do we?

Mr. BRINSON. No, sir.

Mr. MAILLIARD. The Defense Department has not decided what they want in the way of speed.

The CHAIRMAN. Are there further questions?

Mr. DINGELL. Yes, Mr. Chairman. Some days back, as I recall, we discussed the possibility of APL using the same hull design as United States Lines is going to use. Have you folks any views to express at this time, or have you previously expressed any views?

Mr. POOLE. We have made as extensive studies as possible in several weeks that have elapsed since the earlier hearing. Those studies all show that the farther you go upward in speed, the lower the earnings that we would make on the ship. A ship that is designed for about 30.7 knots, which is the standard that was talked about for the United States Lines ship, would make a lower return, and has some real advantages.

When you get up to a ship as we tried another one at 32 knots, and then we took a sister ship to the *United States*, the cost of operating for our service brings the return down below a point which is easy to consider; or, to put it this way, we are prepared to take, and would be glad to take, higher speed if it were required, but it is difficult for

us to do that unless there was a reduction in the price to compensate for the lack of earning power.

Mr. DINGELL. In other words, to take a lower point, where speed becomes a defense feature, is that right?

Mr. POOLE. I would go so far as to say that for a sister ship of the *United States* we could not pay as much as $47 million and run her in our service.

Mr. DINGELL. What do you figure you could pay?

Mr. POOLE. Well, that is a very difficult figure. I think it would have to be $40 million or under to make it possible for us to operate with a thin income.

Mr. DINGELL. What would the architectural savings be of building, say, 4 hulls of this class as contrasted to 2 different sets of hulls?

Mr. POOLE. I think Mr. Hoffman would have to answer that question. I would suggest that he be asked it.

Mr. DINGELL. Is he here in this room?

Mr. POOLE. Yes.

Mr. DINGELL. Mr. Hoffman, would you answer that question?

Mr. HOFFMAN. I would say that if you were to build 4 hulls at 1 time, that the saving on a per hull basis is about 8 percent under the single hull price.

Mr. DINGELL. In dollars and cents, what would that be?

Mr. HOFFMAN. Well, if you are talking $128 million, the group price would be about $118 million apiece instead of $128 million.

Mr. DINGELL. It would save us about $10 million.

Mr. Chairman, may I explore that a bit, or am I going afield?

The CHAIRMAN. These two ships are all we have before us. We are through with the subject. We can take up that matter some other time.

Mr. DINGELL. APL is talking about two ships.

The CHAIRMAN. One ship.

Mr. POOLE. One at this time.

The CHAIRMAN. It is their choice to pick out the type of ship.

Mr. DINGELL. I am exploring the factors. If we are going to get 1 fast ship or 2, or a fast ship and a slow ship, this is something we want to consider, because if it comes out in subsidy or comes out in additional features, maybe we can make a saving.

What would the cost be on a two-hull basis?

Mr. HOFFMAN. It would be a 5-percent saving.

Mr. DINGELL. A dollar-and-cents figure of how much?

Mr. HOFFMAN. Talking again of $128 million, about a $6 million saving per ship.

Mr. DINGELL. Mr. Morse, do you have any views to express on this?

Mr. MORSE. None at all, sir.

Mr. DINGELL. What would you say as to the relative wisdom of the two policies?

Mr. MORSE. We would have to look at the commercial feasibility of operating a sister ship of the *United States* on the Pacific.

Mr. DINGELL. Of course, I have you standing on one foot right now.

Mr. MORSE. No, sir.

Mr. DINGELL. You have not had a chance to explore it and would not be able to give me the information?

Mr. MORSE. That is correct.

Mr. DINGELL. This gentleman here had something to say. Would you give your name and tell us about that?

Mr. FORD. APL investigated the possibility of using a ship of the class of the *United States* in their service and they made the determination that it was entirely unsuitable.

Mr. DINGELL. Would you give your name, sir?

Mr. FORD. Admiral Ford.

Mr. DINGELL. Thank you, sir.

The reason I explored this was that Mr. Mailliard on the other side of the aisle discussed this some while back, and I thought there might be merit in it.

Mr. MAILLIARD. We discussed it, and I discussed it informally with the American President Lines people, and they are convinced that it is not a sound commercial proposition to try to operate that kind of ship.

The CHAIRMAN. The committee will meet tomorrow morning at 10 o'clock to take up these 2 bills in executive session.

(Thereupon, at 12:30 p. m., the committee recessed, to reconvene at 10 a. m., Friday, March 14, 1958.)

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